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The impact of privatisation on firm performance and management control in Egypt

Masry.M **Ph.D.** **2011**

Declaration

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Mohamed Masry

The impact of privatisation on firm performance and management control in Egypt

Mohamed Abdel Fattah Mohamed Masry

A thesis submitted in partial fulfilment of the requirements of Sheffield Hallam University for the degree of Doctor of Philosophy

Abstract

This study has investigated the changes in the Management Control System (MCS) practices and firm performance of three privatised SOEs in a developing country. It was based on the following central research question: *'How do external and internal factors influence the relationships between privatisation, MCS change and firm performance in less developed countries?'*. The research was conducted using the Egyptian construction industry as a basis for investigations. The main aim of the study was to gain an insight into the process of change instigated by the privatisation of Egyptian businesses. In order to answer the main research question, a set of four research sub-questions were settled. The first research sub-question was; *'Why and how did the Egyptian government implement the privatisation policy?.'* A descriptive historical analysis was applied in order to explore this research sub-question in greater depth. The analysis focused mainly on the socio-economic, political and institutional transformations seen in Egypt pursuant to the application of Structural Adjustment Programme (SAP) on May 17, 1991. The descriptive historical analysis gives an overview as to why and how Egypt implemented its privatisation policy. It focused on a review of the most important historical, political and economic events in Egypt prior to privatisation, discussed the implementation of the SAP polices and privatisation process, analysed some of the economic indicators in relation to the programme and analysed the process of social subsidy reduction following the implementation of the SAP.

A mixed method case study approach was undertaken in order to answer the remaining research sub-questions. These research sub-questions were as follows:-

- *Which MCS practices were used before privatisation and how did these change after privatisation?*
- *What is the impact of privatisation on firm performance in terms of profitability, operating efficiency, output, risk and employees social responsibility, when compared to performance during the public ownership period?*
- *What are the external and internal contextual factors which affect [changes in] post privatisation MCS practices and firm performance?.*

The aim of case study approach was to investigate the changes in MCS practices and firm performance resulting from privatisation, and to discover how the identified firms carried out their activities, and how their performance levels differed. In addition, examined how the transition process has been influenced by various external and internal factors, while taking other socio-economic factors into account.

DEFINTIONS

Asset sale: refers to the government selling its assets (direct deal) to private firms that take over the provision of the service for profit. In the other words, asset sale represents a method of privatisation that is used when it is not possible to carry out privatisation through any of the other methods.

Contracting-out: Contracting-out refers to the hiring of private-sector (Outsourcing) firms or non-profit organisations to provide goods or services for the government. It is common especially in such services as public works and transportation, and health and human services. Under this contract the government purchases services from a private firm; also, the government remains fully responsible for the provision of affected services and maintains control over management decisions.

Denationalisation: Denationalisation refers to the sale of assets or shares of a publicly owned enterprise to the private sector.

Deregulation: refers to the removal of regulations allows former public services to provide privately without public supervision. The former means termination of all types of "public regulations" within various sectors or industries.

Earnings before Interest and Tax (EBIT): refers to a measure of a firm's profitability that excludes interest and income tax expenses. EBIT is very closely related to operating profit. EBIT is easier to calculate and easier to observe at divisional or sub divisional level of the firm. It can be calculated by operating revenue mines operating expenses. It represents watched closely by creditors, since it represents the amount of cash that such a firm will be able to use to pay off creditors.

Joint Venture: refers to partnerships of two or more, in which partners' contract on a common business target and to share accruing profits, losses and any other risks. It applies to cooperative ventures with the private sector, usually involving infrastructure.

Leasing: Leasing contracts are agreements between the Contracts government and the private sector, whereby the private sector provides the government enterprise with administrative and technical expertise for a specific period of time. It is refers to transfer of management and operation of some pubic services.

Mass privatisation: It refers to achieve the privatisation through mass privatisation participation of all citizens, local and foreign, including physical persons and legal entities. This model enables the sale of part or all SOEs by use of certificates as the main means of payment. Mass privatisation uses the public offer of shares method. Most of the SOEs in the world are privatised by the mass privatisation model.

Nationalisation: refers to the process of taking assets into state ownership. In general, it refers to private assets being nationalised.

Privatisation: It sometimes called denationalisation or disinvestment. It is an umbrella term, which encompasses all methods or policies implemented to increase the role of market forces within the national economy.

Public ownership: It refers to the government ownership of any asset, ownership industry, or corporation at any level, national, regional or local. It called also government ownership or state ownership. A government owned SOEs may resemble a non-profit company because it may not be required to generate a profit; although governments may also use profitable units, they own to support the general budget. SOE's may or may not be expected to operate in a broadly commercial manner and may or may not have to face competitive tendering.

Return on asset (ROA): It called also "return on investment", "return on total assets (ROTA)", and "return on net assets (RONA)". ROA represents indicator of how profitable a firms is relative to its total assets and gives an idea as to how efficient management is using its assets to generate earnings. ROA is calculates as a percentage (net income / total assets). ROA is using as a comparative measure, it is best to compare it against a firm's previous ROA ratios or the ROA of a similar company. It is often referred to as the No. 1 ratio in finance. The higher the ROA number, the better, because the firm is earning more money on less investment.

Return on equity (ROE): refers to a measure of a firm's profitability that (ROE) exposes how much profit a firm creates with the money shareholders have invested. The

ROE is useful for comparing the profitability of a company to that of other firms in the same industry. The ROE can be calculated by dividing net income by shareholder's equity; may also be calculated by dividing net income by average shareholders' equity. Average shareholders' equity is calculated by adding the shareholders' equity at the beginning of a period to the shareholders' equity at period's end and dividing the result by two. So, ROE is probably the most widely used measure of how well a company is performing for its shareholders.

Return on sales (ROS): It referred sometimes to margin-on-sales percentage, or net margin. ROS represents a measure of a firm's profitability, equal to a fiscal year's pre-tax income divided by total sales. Although return on sales is another tool used to analyse profitability, it is perhaps a better indication of efficiency.

Socialism: is a social and economic system in which the economic means of production are owned and controlled collectively by the people. This control may be either direct, exercised through popular collectives such as workers' councils or community councils, or it may be indirect, exercised through a State.

State-Owned Enterprise (SOEs): A state-owned enterprise is an enterprise, often a corporation, owned by a state.

Tender: represents a method of privatisation of SOEs through a collection of offers, in accordance with previously published conditions. However, the tender as a method of privatisation has started to have a more and more significant position in the selection of the method for privatisation of SOEs.

Voucher: is a certificate, which is worth a certain monetary value and which may only be spent for specific reasons or on specific goods such as housing and food vouchers. The main objective of the voucher privatisation system is to expand public participation in the market-economy.

ABBREVIATIONS

ACs: Affiliate Companies.
BBO: Buy-Build-Operate.
BODs: Board Of Directors.
BOO: Build-Own-Operate.
BOT, BOOT: Build- (Own)-Operate-Transfer.
BT, BTO: Build-Transfer- (Operate).
CASE: Cairo & Alexandria Stock Exchanges.
CBE: Central Bank of Egypt.
CMA: The Capital Market Authority.
CPI: The Consumer Price Index.
EBIT: Real Earnings before Interest and Taxes.
ESA: Employee Shareholders Association.
GDP: Gross Domestic Product.
GNP: Gross National Product.
GOE: Government Of Egypt.
HCs: Holding Companies.
IAS: The International Accounting Standards.
IDCS: The Egyptian Cabinet Information and Decision Support Centre.
IMF: International Monetary Fund.
IPOs: Initial Public Offering.
LBO: Lease-Build-Operate.
LDCs: Less Developed Countries
MCS: Management control system.
MENA: Middle East North African Region.
MNR: The study of Megginson, Nash, and Van Randenborgh, 1994.
MPC: Ministerial Privatisation Committee.
MPE: The Ministry of Public Enterprise.
NEB: The National Enterprise Board.
PEO: The Public Enterprise Office.
PES: Public Enterprise Sector.
PE's: Private Enterprises.
ROA: Return on Assets.
ROE: Return on Equity.
ROS: Return on Sales.
SAP: Structural Adjustment Programme
SFD: The Egyptian Social Fund for Development.
SOEs: State -Owned Enterprises
WB: World Bank.
WTO: The World Trade Organisation.

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CHAPTER 1

Introduction

The academic debate about privatisation has drawn extensively on theories relating to economics and finance. The majority of researches have evaluated privatisation in terms of firm efficiency gains, in some instances, relating to social welfare. Advocates of privatisation share the view that it inspires the development of firm performance. Privatisation theories indicate that incentive and contracting problems generate inefficiencies caused by public ownership, because managers of State Owned Enterprises (SOEs) pursue objectives that differ from those of private firms, and also face less stringent monitoring. Not only are the managers' objectives distorted, but the budget constraints they work within are relatively relaxed, and the soft-budget constraint stems from the fact that bankruptcy is not a feasible threat for managers of SOEs. Consequently, the change from public ownership to private ownership results in more precise and more measurable objectives on the part of the holders, which then shapes the environment and incentives to promote, monitor and perform Management Control System(MCS) more successfully, thus increasing firm performance.

In general, privatisation was initially introduced as a policy strategy in developed countries. These countries are characterised by having a well-built institutional capacity. Unfortunately, these conditions are often not found to prevail in Less Developed Countries (LDCs), which in turn may undermine the success and development of privatisation. In contrast, a shortage of institutional and administrative capacity is always inherent in LDCs. It is believed that considering the implications for privatisation theories in general, and the country characteristics of LDCs in particular, could help to answer the question as to why these privatisation theories may not be applicable in LDCs.

There appears to be a lack of literature on MCS change and the influence of contextual factors within LDCs during the transition period following privatisation. This research has observed that there appears to be a significant gap in the literature in that it does not adequately clarify how expected post-privatisation changes occur from a LDCs perspective. The expectations with respect to the results of privatisation are founded on studies conducted in the West, but these studies fail to consider the influence of contextual factors at play in LDCs when it comes to firm performance. These factors are generally speaking market and country conditions. Even though it is commonly acknowledged that privatisation has an impact on MCS and firm performance, the studies undertaken so far do not offer an adequate analysis of the changes taking place. Past contingency-based studies have tried to explain the way in which some factors shape MCS practices and firm performance, but they neither related these factors to privatisation, nor placed them in the context of LDCs. This is why a number of researchers have called recently for a stronger detailed focus on qualitative case studies dealing with these issues. By choosing a third world country as a research setting, this study aims to make a contribution to filling this gap in the research area.

The aim of this chapter is to describe the background of the study including motivation, a brief background of the study, the importance of the study, its objectives, and contributions. The last section provides a brief summary of the thesis, highlighting the contents of each forthcoming chapter.

1.1 Motivation

Privatisation has been the key factor in structural adjustment policies (SAP) in LDCs. However, less consideration has historically been given to the differences in pre- post-privatisation results in the LDC than in other areas. Accordingly, the consequences of privatisation within LDCs remain controversial (Boubakri et al., 2008; Parker and Kirkpatrick, 2005), and there is still debate about whether privatisation really does improve firm performance in LDCs.

A drop in the performance of a public firm or a perceived need to capitalise on resources often serves as the catalyst for privatisation. The ultimate aim of privatisation is usually quite clear; to save or make money for the government in power in the shortest time frame possible. An important factor often overlooked in the haste to achieve this desired state is the "people" and the management control system (MCS). MCS can help organisations avoid price distortions by introducing modern costing systems (Ramaswamy, 2001; Berkman et al. 2009) that improve costing and pricing and hence improve firm performance(Wu, 2003a).Privatisation involves a significant change and therefore demands a proactive yet considered response from management. Thus privatisation, often seen as a solution, can bring with it many additional management problems due to the potential difficulties faced by staff in trying to deal with the anticipated changes. Problems such as planning and budgeting, product costing and pricing, cost control, internal reporting and decision- making, decreases in productivity and output, and a failure to meet effective performance measurement and evaluation requirements can result in substantial organisational costs. Therefore, socio-economic resistance encountered by public sector organisations moving toward the privatised environment can prove exceptionally costly in relation to firm performance.

The influential actors in the endorsement of any privatisation policy, especially in LDCs, are the international lending agencies. The IMF and World Bank have forced many LDCs to pursue privatisation policies (Craig, 2000; Letza et.al, 2004), assuming that ownership changes will bring on superior MCS, greater allocative and productive efficiency and hence better firm performance (Vickers and Yarrow, 1988a). On the other hand, Parker and Kirkpatrick (2005) argue that the success of privatisation in LDCs is likely to be influenced by a number of contextual factors. These factors generally include competitiveness of the market, policy frameworks and the macroeconomic conditions; in other words, the prevalent country and market conditions.

An extensive amount of research linked to privatisation, both in terms of financial and managerial matters, has been conducted within developed countries (Cuervo and Villalonga, 2000; Shirley and Walsh, 2001).These studies have generally focused on the role of management accounting and the effects of ownership change. These studies have also addressed matters such as post-privatisation firm performance (e.g. Uddin and Hopper, 2003; Berkman et al. 2009) and its impact on societies (Parker and Kirkpatrick, 2005; Fontaine and Geronimi, 1995), the creation of conglomerates through privatisation (e.g., Plumbe, 1995, Novak, 2003), and conflicts and internal managerial problems in privatised companies (Potts, 1995, Wu, 2003b). However, most of the studies carried out have not to date tackled the internal realities of post-privatisation profiles, and remain ambiguous about the outcomes of privatisation in LDCs. More specifically, the changes that MCS undergo within the boundaries of an organisation after privatisation, and the performance of enterprises as a whole after privatisation have not been fully investigated by these studies. Parker and Kirkpatrick (2005), for example, are cynical about post-privatisation results, while the World Bank (1992) is optimistic about them in terms of improvement in productivity, increased investments, diversification and output growth.

As stated by Uddin and Hopper (2003), evidence indicates that privatisation may not necessarily improve the MCS and firm performance of companies in LDCs. Correspondingly, opinions are divided on whether privatisation really develops the firm performance within LDCs, distributes wealth fairly, facilitates development goals, and induces more effective MCS, transparency and accountability. For that reason, and bearing in mind the above-mentioned ambiguities concerning the actual outcomes of privatisation, caution has to be applied when considering making a quick generalisation on this issue.

Taking into account the prevailing ambiguities and the fact that the success of privatisation is largely influenced by wider environmental factors, it is the task of the researchers to shed light on reality by bringing forth practical evidences. Essentially, it is unwise to assume that privatisation policy, which increases the role of the private sector in the economy, will automatically result in improving MCS and firm performance (Uddin and Hopper, 2003; Masulis et al., 2009). Uddin and Hopper (2003) further emphasise that MCS is socially and politically determined, and considered to be an important precondition for privatisation functioning. Therefore, MCS reform is a vital but thus far neglected component in most of the structural adjustment policies performed in LDCs. As researchers have become more concerned with internal organisational matters with their associations with socio-economic contexts (e.g. Hopwood and Miller, 1994; Uddin and Tsamenyi ,2006; Cole and Cooper,2006), so they are looking to provide a more realistic understanding of post-privatisation matters in terms of MCS and firm performance in LDCs.

Hopper et al. (2004b) and Tsamenyi et al. (2010) claim that there is a growing research interest in MCS and firm performance in LDCs. They explain that this interest could be attributed to various factors, including international competition and the increasing exposure of LDCs to global capital markets, as well as new public sector management and their implementation of SAPs involving privatisation. Further, they argue that studies which have so far been devoted LDCs have a tendency to be normative studies rather than contextual studies and, thus, the relationship between privatisation and economic and socio-political aspects remain un-investigated. They conclude that studies conducted in LDCs have unreasonably neglected broader socio-economic factors by assuming that the transfer and application of policies applied in developed countries is just as beneficial and unproblematic to any LDCs adopting them. In this regard, Perera (1989) and Hassan(2008) argue that in its current form MSC is inapplicable to LDCs, mainly as a result of the differences in their ownership structures, business environments, attitudes towards disclosure, and usage of accounting information. Therefore, it can be concluded that contextual studies in LDCs remain a largely neglected area of research.

As a result of the above, this study is aimed at gaining knowledge about LDCs contextual factors in an attempt to shed light on some of the prevailing ambiguities in these countries. In a general sense, this study tackles the relationship between privatisation, MCS change, and firm performance, surrounded by the wider political and socioeconomic context of privatised companies in an LDC country, focusing more specifically on privatised construction companies in Egypt. In particular, the issues covered in this study include an assessment of the post-privatisation changes in MCS practices, a description of MCS practices, and firm performance. In addition, the study presents the influence of contextual factors on MCS practice changes and firm performance. Data obtained for both pre- and post-privatisation periods are compared to enable a better understanding of the changes taking place in the privatised firms.

1.2 Brief background of the study

Following the July revolution in 1952, Egypt adopted a new economic policy based upon a centrally planned economy which remained in force for nearly 22 years thereafter. However, since 1974, a different philosophy has been adopted, which is referred to as an "open door policy". The policy was introduced to re-enervate an Egyptian economy which was on the verge of collapse. Although the adoption of this policy had a positive impact upon the Egyptian economy in the short term, Egypt was facing many difficulties by the end of the 1980s. These difficulties were principally caused by a sharp decrease in oil prices, and a decrease in both Suez Canal dues and workers' remittances.

The SAP became a significant phenomenon in developing countries within the last three decades. Egypt, like other developing counties, experienced the application of a similar programme aimed at achieving stabilisation in its economy. However, in 1991, the Egyptian government embarked upon a comprehensive SAP, at the core of which was the liberalisation and privatisation of Egypt's economy. Over the past three decades, Egypt has taken important steps towards achieving liberal economic reform. This reform was correctly viewed by some writers as constituting a fundamental shift from pre-1974 economic policies. Since the mid-70s, Egypt has moved dramatically from a centrally planned public sector dominated economy, toward a competitive market based one, in which the private sector is expected to continue to play an important role. Egypt initially launched a privatisation programme in 1991 as a part of its SAP programme.

The first step in Egypt's privatisation programme was to cut off subsidies to SOEs. The aims of the Egyptian privatisation programme were to reduce the size of the public sector; widen the ownership base, to end controls over investment and to eliminate most tariffs on imports, to reduce consumer subsidies and targeting them towards the poorest activities, encourage private activities in all sectors and selling all manufactured goods at market prices.

Egypt offered 314 SOEs for privatisation in 1991. Three main approaches were adopted by the government for divestment of the SOEs. The first was to sell shares through the domestic stock market. The second was to sell strategic stakes of shares to anchor investors through public auction. The third strategy was to sell firms to employee shareholder associations. In addition to these key approaches, some firms were also liquidated because they were not deemed to be economically viable. Egypt concentrated on the initial public offerings method (IPO) to privatise its SOEs in order to give a boost to the privatisation programme and to increase the activities on the stock market. This method was used to make privatisation more acceptable to the public, and to enhance the image of privatisation in their eyes.

The construction industry is one of the key sectors in an economy, and its contribution to the GDP and to the development of a country has always been acknowledged, particularly in developing countries. It is also one of the major contributors to the development of technology in a nation (Ofori, 1988; Elehnawy, 2009). In developing countries, the construction industry plays a vital role in terms of investment, its contribution to GDP, exports and employment, and has strong connections with other industries in the economy (Pheng, et al, 1992). In Egypt, this industry has considerable potential owing to a combination of factors; namely, being one of the oldest in the country, the accumulated expertise in this industry, the availability of basic physical and human resources, and a high level of demand. Despite the importance of the construction industry, as indicated by Parker and Kirkpatrick (2005), the existing industry-level post privatisation studies for developing countries have largely centred on the telecommunications industry. Therefore, there is an urgent need for comparable studies of other industries in developing countries, in order to fill this gap in knowledge.

1.3 Importance of the study

MCS is an area that is fundamental to the development of management practices that meet the requirements of modern business organisations (Otley, 1994; Harris, 2003). In accordance with Todaro (1994), SAP is considered as a multidimensional process which concerns principally changes in popular attitudes, social structures and national institutions, in addition to an attempt to increase economic growth, the eradication of poverty, and a reduction in inequality. The literature indicates that MCS has come to play an imperative role in societies and organisations (Irwin, 2007). Societies require development, for instance social progress and economic growth (Corral, 2007). MCS allows organisations to be more effective and efficient (Otley and Berry, 1980; Falmholtz, 1983), to bring about socio-economic development (Nabli and Nugent, 1989; Bardhan, 1989: cited in Wickramasinghe, 1996), and to improve productivity (Estache and Limi, 2008). MCS plays a vital role in development through supporting organisations in monitoring nation-wide accountability (Cole and Cooper, 2006; Hassan, 2008).

Moreover, MCS can stimulate the motivation of employees and managers in utilising an organisation's resources (Anthony et al., 1984; Estache and Limi, 2008). MCS can also enhance the productivity and motivation of capitalists, merchants and workers (Cole and Cooper, 2006). It can facilitate a more liable management through the provision of standards for observing the behaviour of industrial organisations. Seiler (1966) has also specified that MCS combined with strong entrepreneurship and managerial ability can help achieve development in LDCs. On the other hand, if the accounting profession is ineffective, as is the case in LDCs, development is often delayed (Seiler, 1966). The attainments in meeting budgeted targets, improving economies of scales and reducing public financing, as well as profitability, may inspire development in LDCs, as long as the political and socio-economic factors are unproblematic (Kirkpatrick, Parker and Zhang, 2006). Therefore, studies can identify political contexts and problematic socioeconomic and introduce alternative MCS by replacing existing practices which do not sufficiently improve firm performance.

Within an organisation, accountants obtain information by means of gathering, recording and analysing "a particular variety of realities about the world" (Irvine *et al.*, 1979). They convert these realities into accounting information. This information tends to be considered as objective, factual, independent of "ideology or social values" (Loft, 1986; Chua, 1986) and unconstrained by societies and organisations (Burchell *et al.*, 1980). This belief has been developed by researchers who draw their hypotheses based on neo-classical economic theories. These researchers integrate management accounting decision models into marginal economic analysis, hypothesising that, for instance, an increase in the marginal productivity and profit markets economic efficiency improves firm performance. Such notions have led researchers to implement a variety of neo-classical economic theories, for instance; the Transaction Cost Theory (e.g. Spicer and Ballew, 1983), Information Economics theory (Demski and Feltham, 1978), and Agency Theory (Jensen and Meckling, 1976).

This school of thought presume that societies and organisations are passive and unproblematic entities. From an ontological perspective, they suppose an objective world where the managers are economically rational (Tinker *et al.*, 1982; Hopper *et al.*, 1995; Chua, 1986) and where accounting is technical activity providing information on the basis of efficient economic decisions (Horngren, 1972; Hopper *et. al.*, 1995; Gaffikin, 2005c). Moreover, this cohort argues that accounting is an inactive concept which is not subject to change as development continues (Gaffikin, 2005, Gaffikin, 2005a). The main methodology of their research is positivistic and founded on quantitative analysis. Their studies are derived from a functionalist paradigm (Hopper and Powell, 1985). Hence, these studies have not theoretically or empirically investigated the hypothesis that accounting may be a reflection of societies and their social systems.

Hopper *et al.* (2004b) indicate that such researches found that '*Western MCS techniques*' are suitable for LDCs and that the MCS practices in LDCs are unproblematic and neutral. They suppose that Anglo-Saxon accounting knowledge is robust enough to resolve any accounting problem in LDCs. They also declare that LDCs form a homogeneous group; that all members face the same accounting problems which can be solved through international consensus.

On the other hand, some researchers indicate that these assumptions are to some extent ambitious and unrealistic. For instance, geography is one of the aspects that determine the distinctive characteristics of social behaviour, reflecting different cultural, political, and social peculiarities. A considerable number of studies have also demonstrated that Anglo-Saxon accounting techniques often ignore country-specific differences (Chua, 1986; Hopper et al, 1987; Kirkpatrick, Parker and Zhang, 2006). Even though the use of accounting practice and theory is in fact being called into question in imperialist countries, practitioners and policy-makers in LDCs have "imported" western models without properly assessing them to validate their applicability to local conditions. Accordingly, practitioners and researchers ignore the problematic nature of the relationship between MCS and firm performance and the prevailing political and socio-economic contexts (Scapens, 1984; Tan, 2008).

Consequently, many studies in LDCs have failed to consider firm performance as part of a wider socio-economic and political context. In this regard, Wickramasinghe (1996) observes that very little of the literature deals with the "real" role of MCS in countries that are implementing SAPs or any other development programme. The literature states that MCS practices have been imported from the West through powerful foreign investors, colonialism and professional accountancy institutions, foreign aid, and multinational businesses (Roland, 2008). Some evidence proposes that the transfer of accounting has played an opposite role in LDCs by actually declining development rather than inspiring it (Kirkpatrick, Parker and Zhang, 2006). Some studies doubt the assumption that the transfer of accounting knowledge has not been practical, due to the differences in the contextual factors applying in LDCs (e.g. Hove, 1986; Appelbaum and Berg, 2000; Salah,2008).

Therefore, it is essential to theorise accounting from a broader perspective and to assess MCS changes and firm performance after the process of privatisation in LDCs. The appearance of naturalistic studies derived from the organisational context has been a fruitful development that could resolve the problems with the contingency studies, and offer researchers a suitable framework for investigating accounting practices in LDCs (e.g. Neimark and Tinker, 1986, Cooper and Hopper, 1987, Laughlin and Lowe, 1990, Gaffikin, 2005; Akram, 2003). Gaffikin (2005) indicates that there is a common fundamental aspect of these studies. These studies concern the requirement to remodel a more identity-reflexive and contextualised accounting literature which recognises the contextual relationship between society, organisations and accounting practices. These studies have made it possible to examine organisations meaningfully, considering them as proactive and active organisms. This shows that researchers have shifted from a rational to a more social perspective.

In short, due to political economic and societal differences, western theories may be not valid in the context of LDCs. In most cases, researchers in the West are not familiar with the societal aspects of LDCs, such as their specific culture and politics. They are not familiar with underprivileged groups or poverty, and have thus failed to address important development matters in LDCs. Therefore, conducting an MCS and firm performance study in order to gain insight into the perspective of LDCs is imperative.

1.4 Objectives and contributions of the study

Some studies have shown that the success of MCS and firm performance is associated with external factors such as historical, socioeconomic, cultural and political factors (Neimark and Tinker, 1986; Roland, 2008; Broadbent, 1999). These studies emphasise the effect of cultural, social and political factors upon accounting in LDCs and are based on the view that MCS and firm performance in LDCs may operate differently from those in the West (e.g. Asechemie and Ikeri, 1999: cited in Hopper *et al.* (2004b). However, only a few studies have examined MCS practices and firm performance in the wider context (Wickramasinghe, 1996; Tsamenyi et.al, 2010).

This thesis starts from a similar line of interpretation, which is that the relationship between privatisation, MCS practices and firm performance in LDCs should be considered in relation to their wider context. The overall aim should be to contribute to filling this gap in literature by presenting evidence that can be used to enhance the knowledge of privatisation in LDCs.

The current literature available in relation to privatisation merely supposes that improved MCS practices and firm performance are the outcome of privatisation but fails to explain how this process really takes place during the transition period. This research aims to shed some light on this process and the relationship between privatisation, MCS change, and firm performance, while also bearing in mind the impact of contextual factors. Researchers should focus on this area to understand the existing ambiguities in neo-classical theories and former studies. These ambiguities include matters such as: expected changes in MCS after ownership changes, the role of government in the operation of private enterprises, setting transparent and effective privatisation regulations, and post-privatisation firm performance in LDCs.

In order to gain more insight into the impact of environmental factors, MSC practices and firm performance, this research includes an investigation of Egypt in a wider socio-economic context. This research views MCS in its broader sense, and for this reason the study has adopted a broader definition, which allows the researcher to integrate other matters which have traditionally been left out in traditional MCS definitions, for instance; the motivation of employees and management, innovations in MCS practices and wider participation, and the empowerment of low-level employees. The study focuses on the relations between these factors, and investigates the situation as it was in Egypt. This research also aims to discover similarities and differences of privatisation, mainly in terms MCS changes, and its impact on firm performance, between documented studies conducted in developed countries and those in LDCs. Therefore, by including environment and social-economic-related issues, this research attempts to explain changes in ownership, MCS practices, and firm performance, moderated by contextual factors, managerial behaviour and influence, and employees' reactions to the changes in MCS practices. Thus, the research findings aim to provide a better understanding as to whether or not privatised firms have managed to utilise improved MCS practices in order to achieve a better performance.

In addition, the study attempts to provide knowledge about the changes in MCS practices and contextual factors as a result of the privatisation processes in LDCs. The available literature dealing with this issue is thin on the ground. Therefore, the outcome of this study is hoped to make a contribution to the field of management. The expected results of this study may benefit policy makers in dealing with similar situations in future reforms, including perhaps those aimed at the creation of an environment suitable for privatisation. In addition, the policy makers may stimulate the relevant institutions which provide support to the private sector. In addition, the challenges faced by the firms which form the basis of this study might be brought to the attention of government bodies so that they can take effective measures to resolve these problems before they have an unexpected negative impact. In this way, the development policies as well as the ownership changes might be executed successfully. Further, other LDCs which are also going through the process of privatisation may use this study as a guide. Hence, the framework of the final study may be adapted to serve as a basis for similar studies which could be conducted in other LDCs.

This study addresses an area that has been so far neglected by the existing literature. It focuses on unresolved issues concerning privatisation and its impact, MCS changes, firm performance, and the influence of contextual factors. To help find answers to the issues raised and to structure the study, the following general research question is set and its sub questions highlighted:-

General Research Question: How do external and internal factors affect relations between privatisation, MCS change and firm performance in LDCs?

Research Sub questions: the above-stated general research question can be broken down into a more detailed question as follows:-

- Why and how did the Government of Egypt (GOE) implement the privatisation policy?
- Which MCS practices were used before privatisation, and how did these change after privatisation (if at all)?
- What is the impact of privatisation on firm performance in terms of profitability, operating efficiency, output and risk, as well as on employees' social responsibility, when compared to performance during the public ownership period?
- What are the external and internal contextual factors which affect [changes in] post privatisation MCS practices and firm performance?

These research questions were refined after conducting a pilot study on one of the studied cases, focussing on the Egyptian construction environment. This pilot study was performed as a preliminary analysis in order to modify the research design and to select relevant matters related to the area itself, for instance; gaining insight into MCS changes, classification of the contextual factors and selection of case firms, rather than having to depend entirely on the available literature.

1.5 Organisation of the thesis

This thesis aims at bridging the gap in the literature by investigating the impact of privatisation in terms of changes in MCS and firm performance of privatised construction firms in Egypt, both from a firm and a socio-economic perspective. This thesis is organised into eight chapters. Chapter two reviews privatisation concepts, chapter three provides detailed information on the LDCs perspective and the external contextual factors, and chapter four discusses the MCS and internal contextual factors and presents the conceptual framework of the study. Chapter 5 introduces the methodologies used to obtain the empirical results. The analysis of the empirical results obtained is presented in chapters 6 and 7. Each of these empirical chapters is independent of the other, in the sense that each analysis chapter is based on its own data, approach and results. Finally, chapter eight concludes the findings of the thesis. The contents of the chapters are briefly explained below:

Chapter 1 presents the introduction and motivation of the study. In this chapter, the researcher motivates his arguments for choosing the research topic. The matters dealt with include the need for research in LDCs aimed at the current practices and the changes taking place in privatised enterprises. Key indicators are privatisation, MCS practices, firm performance and the impact of contextual factors. Chapter 1 also presents a brief summary of the findings of former studies, an outline of their shortcomings, and the reasons behind the need for research in LDCs. Finally, the research objectives are presented.

Chapters 2, 3 and 4 cover the literature review. The aim of these chapters is to build up the conceptual framework of the study.

Chapter 2 includes the theoretical background, the arguments for privatisation, the objectives of privatisation and its necessity for improving firm performance.

Chapter 3 presents the lessons to be learned from previous privatisation studies and the limitations of privatisation theories in relation to LDCs. The chapter also deals with the influence of external contextual factors on MCS practices, firm performance and the role of governments in the attainment of development objectives.

Chapter 4 presents the theoretical discussions about MCS practices and their subsequent post privatisation changes. It also addresses the influence of internal change factors. Finally, the conceptual framework is presented, which serves as the basis for the data collection and analysis.

Chapter 5 deals with the research methodology, and provides a description of the data collection and analysis methods used.

Chapter 6 uses historical descriptive analysis to focus on a review of the most important historical, political and economic events in Egypt prior to privatisation, discusses the implementation of the SAP polices and privatisation process, analyses some of the economic indicators in relation to the programme, and investigates the process of social subsidy reduction following the implementation of the SAP.

Chapter 7 uses a mixed methods case study approach to investigates the changes in MCS practices and firm performance resulting from privatisation, and discovers how the identified firms carry out their activities, and how their performance levels differs. In addition, chapter 7 examines how the transition process has been influenced by various external and internal factors, while taking other socio-economic factors into account.

Chapter 8 concludes the study by presenting the conclusions and implications of the study. It discusses cross-case analysis in combination with the findings of the literature review chapters. This chapter highlights those matters which might assist one to understand the similarities and differences presented in the cases. The findings are discussed in connection with theoretical expectations and findings of former studies. Moreover, the implications of the study are assessed, and reflections are made on the adaptation of the conceptual framework. Finally, the chapter sets out the limitations of the study and indicates areas for further research.

CHAPTER 2
The general concepts of privatisation

2.1 Introduction

Since the 1980s, privatisation has become a world-wide phenomenon, representing an important political and economic transformation process. Privatisation leads to a restructuring of power relations not only between the state and society, but also among diverse interest groups. They adjust the dialectic relations among the state, the economic and social structure, and diverse interest groups (Richards and Waterbury, 1990; Bela and Warner, 2008). The term 'privatisation' achieved global awareness with the sale of British Telecom in 1984. Since then, the policy has received significant attention all over the world. The importance of privatisation is evidenced by the fact that it has since been implemented in over 80 countries around the world. The cumulative value of privatisation sales had raised to more than US$1 trillion for the relevant governments by the year 2000 (D'souza, 2000; Boubakri, Jean, and Omrane, 2008). Despite the fact that poor financial performance of SOEs was seen as a key motive for the introduction of such a policy, privatisation has also forcefully been endorsed by international lending agencies (e.g., the World Bank and the IMF) as a treatment for economic problems in developing countries, through a bundle of structural adjustment programmes relating to loans provided by these agencies (Stiglitz, 2000; Ghosh, 2000; Kenawy, 2009b).

It is assumed by the literature that privatisation theories suppose that a State Owned Enterprise'(SOE) performance will be enhanced through a change of ownership. Privatisation programs aim to increase firm performance through competition, deregulation and the improvement of customer service, to strengthen the capital market and stimulate employee productivity, and to allow the state to reduce its liabilities in order to carry on micro and macroeconomic restructuring. It is not surprising that privatisation was selected as *'a preferred policy'* in Egypt simultaneously with an agreement to take a financial loan from the IMF.

The aims of the Egyptian privatisation programme were to reduce the size of the public sector; widen the ownership base, to end controls over investment and to eliminate most tariffs on imports, to reduce consumer subsidies and targeting them towards the poorest activities, encourage private activities in all sectors and selling all manufactured goods at market prices. However, in addition to an increase in approval of such programs by some, opposition and criticism has also frequently arisen in countries that have employed the policy.

This chapter provides a discussion about the general concept of the privatisation including; the definition (2.2), objectives (2.3), reasons (2.4), theoretical expectations (2.5), its impact on firm performance (2.6), and methods (2.7). The last section in this chapter is a summary (2.8).

2.2 Definition of privatisation

Some definitions of privatisation are generous, covering almost any action that involves exposing the government's operation to the pressures of the commercial market place. Privatisation is most commonly defined as the shift of assets from the government to the private sector. Privatisation occurs in a very broad range of forms, sometimes resulting in very little government involvement in the privatised organisation, and sometimes creating partnerships between private service providers and the government, whereby the government remains the essential player.

Waddell (1992) indicates that privatisation is the process of shifting assets and productive operations from the public sector to the private sector. Generally defined in this manner, privatisation is much more than selling an enterprise to the highest bidder; it includes leasing, contracting out, private sector financing of an infrastructure project, liquidation, and mass privatisation. The James Waddell testimonies argue that there is no single best definition of privatisation; the most appropriate definition of privatisation depends on the objectives that the government is looking to achieve, the specific individual circumstances facing the enterprise, and the political and economic context of the country as a whole.

Away from this etymological point of view, privatisation can also be defined either from a micro or macro perspective. In a macro perspective, privatisation has been defined as a policy to change the government's role in the economy (Morgan, 1995; Gupta, 2000). The change of the role of government in the economy may mean delegating the government's role whilst promoting the role of private sector in the economy (Savas, 1987). In the former Soviet Union, and in Central and Eastern Europe, the change indicates a transformation from a state-oriented economy to a market-oriented economy (Major, 1993).

Following this basic concept, privatisation focuses on the dominance of the free market and the limited function of the government in a country's economy. Ramanadham (1988) defines this type of privatisation as privatisation of the economy. Ramanadham asserts that there are three indicators for this type of privatisation: there is no extension of public firms whereas private firms expand, the expansion of public firms takes place at a slower rate than private firms, and there is a higher incidence of private participation in the economy. Promoting or expanding the private sector, while simultaneously restraining the role of the public sector in the economy forms the basis of the privatisation policy.

In a micro perspective, privatisation is defined as the privatisation of SOEs (Ramanadham, 1988; Annez, 2006). The basic character of this type of privatisation is the transfer of control of SOEs to the private sector, either by the re-assignation of operational control and/or management, or by the transfer of ownership. Transferring ownership eliminates the government stake in SOEs, while re-assignation of management does not necessarily involve a transfer of ownership. In further describing the micro concept of privatisation, Pirie (1988) indicates that it should be distinguished from the concept of denationalisation. The term denationalisation gained much publicity in the UK before the appearance of the concept of privatisation. To differentiate these two concepts, Pirie's justification is as follows:

> "Denationalisation was taken to mean the reversal of nationalisation; it meant handing back state industries to their previous owners. Privatisation, by contrast, is the process by which production of goods and services was transferred from the public to the private sector. Instead of merely handing back what had been nationalised, it sought new owners within the private sector. This did not involve a reversal to previous owners, but a complex web of arrangements to create new owners, and in some cases new forms of ownership" (p.6).

While the reversion of ownership of property to its former holder is central in denationalisation, privatisation is identified as a change of ownership and control. Aligned with this argument, Ramanadham (1988) indicates that privatisation can also be defined as *'re-marketisation'*; in other words, placing SOEs in a free market environment in which competition is commended, protection is reduced, and monopoly is decreased. The other definition of privatisation is described as *'mass privatisation',* or large-scale privatisation. It is a practice by means of which a substantial part of the public assets of an economy is rapidly relocated to a large diverse group of private purchasers. It comprises a consolidation or bundling of enterprises to be privatised, which includes the distribution of shares to the public, either at minimal cost or for free via a plan of allocation of vouchers (Lieberman et al., 1995; Cole and Cooper, 2006).

In summary, privatisation is subject to a variety of definitions. It could be defined from two different perspectives: a micro and a macro perspective. From a micro perspective, privatisation is defined as the transfer of ownership and control of SOEs to the private sector, and is commonly entitled as privatisation of SOEs. From macro perspective, privatisation is defined as a policy to transform the role of government in the economy, from interventionist to liberal orientation. As stated by Adam et al. (1992, p 3) "*privatisation remains the transfer of ownership of goods and services from the public to the private sector*" In this study, the definition given by Adam et al is used. This definition delineates privatisation as the change from public control and/or ownership of enterprises to private control and/or ownership. This definition is also used by the Government of Egypt (GOE), and it is the most commonly used definition when privatisation is being discussed. In this definition, commercialisation and liberalisation are excluded from the process. The following issues are however included in the definition: 1) the transfer of assets to the private sector through leasing arrangements, 2) the introduction of management contracting arrangements, and 3) the complete or partial sale of assets by the state.

2.3 Objectives of privatisation

Defining the objectives of privatisation is an important exercise which should be undertaken as early as possible in the process. Many privatisation programs have floundered because clear objectives were lacking, or conflicting objectives were simultaneously pursued. In this regard, Parker and Kirkpatrick (2005) indicate that the objectives of privatisation should be classified differently for developed countries than for developing countries. In developed countries, the prime objective of privatisation is to increase economic efficiency. The emphasis is on increasing productivity and reducing production cost. On the other hand, in developing countries, obtaining maximum output from scarce recourses remains an important objective. Two other priority objectives are also in operation; namely poverty reduction and sustained economic development (Parker and Kirkpatrick, 2005).

Waddell (1992) indicated that the objectives of privatisation fall along two principal dimensions: macroeconomic and microeconomic objectives. Macroeconomic objectives are numerous. Basically, privatisation is promoted as a means of reducing the government's role in the economy. Several countries can attribute large percentages of their external debt to liabilities of SOEs, and considerable percentages of government budgets can be directed to paying subsidies. According to Waddell (1992), macro economic objectives are to realise sale proceeds from privatisation and to apply them to finance deficits in the government's budget or decrease public sector debt. Whilst it is widely recognised that focusing on sale proceeds may be short sighted and might ignore other important outcomes of privatisation, it is a fact that some governments are heavily influenced by the availability of funds resulting from privatisation.

Microeconomic objectives of privatisation focus principally on the potential developments and benefits that the private sector will bring to an enterprise to improve its performance and increase its chances of survival. These objectives recognise the need to improve efficiency by introducing new technology and financial resources, improving the quality of the product, enhancing marketing (particularly in the international market), providing better information systems, and generally improving the management of SOEs. Obviously, successful changes of this nature when applied to a number of individual enterprises will have significant macroeconomic implications as well (Martin and parker, 1997).

As a final comment on the objectives of privatisation, one should note that, in most countries, privatisation is only one component of a broader SAP. This is particularly apparent in LDCs, where privatisation is a component of an overall development of a market economy and its related financial institutions. In this case, privatisation should consider the broader economic goals being followed, as well as the specific goals of the enterprise. The selection of privatisation objectives and other related matters, for instance, the selected method of privatisation and the identification of the SOEs which are to be privatised, depends on several factors including the performance of the SOEs to be privatised, the government's overall economic objectives, and wider socio-political factors (Gupta, 2000; Vuylsteke, 1988). Hence, political intervention is a key factor in every case of privatisation (Biais and Perotti, 2002). In some cases, even though there is intense criticism and opposition, a government can still successfully execute a privatisation program, while in other cases privatisation might be cancelled or delayed (Vuylsteke, 1988).

For these reasons, significant consideration must be given to all relevant factors when implementing any privatisation policy. In fact, a trade off between social, political and economic achievement should be made in order to achieve maximum possible success in implementing the policy.

2.4 Reasons for privatisation

The rise of neo-liberalism is claimed as the fundamental reason for privatisation (Martinez and Garzia, 2000; Baswir, 2004a, Nellis, 2005). As a result, the role and scope of privatisation has increased dramatically in the last thirty years, both in the form of contracting out of public services and in the outright purchase of government enterprises by the private sector on national and international levels. The overwhelming concern for the increasing globalisation of privatisation activities tends to focus narrowly on economic gains by private sector interest groups without long term consideration being given to vulnerable groups of the affected public sector community.

Whilst the rise of neo-liberalism is claimed as the fundamental reason behind privatisation, it can be seen that financial difficulties faced by the state, poor financial performance of SOEs, international pressure from international lending agencies, and other political factors are also key considerations which have led to the introduction of privatisation policies. These other key factors are further investigated in the following sub-sections.

2.4.1 The poor performance of State Owned Enterprises (SOEs)

The poor performance of SOEs has always been used as a solid rationalisation for privatisation, even though verification of such an argument is mixed. In general, SOEs failed to reach the expectations of financiers and creators. A large number of reports and studies from the 70s through to the 90s highlighted their shortcomings (World Bank, 1995). As indicated by Nellis, (2005) *"rather than contribute to state budgets, public enterprises drained them"* (p. 4). Most public enterprises failed to produce a high quality product or service. Also particularly troublesome was a widespread failure to charge tariff costs in utility/infrastructure public enterprises – as a result it was government subsidies and soft budgets which enabled them to float. As a result, these structures added a large financial burden to government budgets.

The main problem in relation to SOEs was the existence of multifaceted, conflicting and ambiguous objectives (Shirley and Nellis, 1991). SOEs finance their activities with debt rather than equity, produce goods and services at below cost price, create jobs and receive their raw materials from government-sanctioned suppliers. They further select the enterprise's location based on political rather than commercial criteria, and hire their staff based on what they know rather than what they knew. This mix of political, social and economic objectives weakens the autonomy of management, the enterprise's efficiency, and its performance (Nellis, 2005).

A main note on the reason behind SOEs' poor performances, primarily in the UK, has been elegantly espoused by Garner (1988). Garner argues that it is,"*a failure of government rather than that of the institution of public enterprise itself*"(p. 26). Firstly, the government fails to decide on explicit objectives and appropriate performance measurements. SOEs thus have numerous objectives forced upon them (e.g., maintenance of employment, adequacy of supply, stable prices, and support for regional development) and, consequently, they cannot focus on simply achieving a superior financial performance. Unfortunately, an SOE's performance is still determined primarily by financial returns, as applied to private enterprises. As such, an SOE's financial performance is invariably never better than that of a private enterprise. Secondly, the state fails to award adequate autonomy to SOEs in relation to various matters, for instance, in strategic decision-making. Accordingly, the decision process is time consuming and can lead to a loss of business opportunity.

Consequently, the idea that poor performance is the only motive for privatisation of SOEs cannot be applied widely. A case by case study is likely to be more suitable. This indication led to the investigation as to whether in fact ownership or other factors improve the performance of enterprises.

2.4.2 The financial difficulties faced by the state

The second primary motive that has encouraged privatisation is the financial difficulties faced by the state. In dealing with such economic problems, the privatisation of SOEs is perceived politically and economically as a practical choice. Highlighting the work of

Fraser (1988) and Abromeit (1988), Jackson and Price (1994,) note that: "*Raising revenue from the sale of public assets was less politically damaging than raising taxes or cutting public spending and was regarded as a more acceptable means of reducing the public sector borrowing requirement*"(p. 14). This can be seen from the practice of many countries including Egypt. Prior to the implementation of a privatisation policy in Egypt, the GOE started the 90s with sever economic problems, including increase in budget deficit, high inflation rate, and massive decline in the international reserves. For instance, the GDP rate decline from 3.9% in fiscal year 88 to 2.3% in 91. As a result, the Egyptian pound devaluated from 1.761 to 3.009 per US dollar (Abdel-Khalek, 1992; Kenawy, 2009a) The World Bank (1991) explained this deteriorating position to the failure of the Egyptian government to limit social spending expenses, the failure of the Egyptian exports to offset sluggish foreign exchange performance, and increased debt. This position had been further damaged by cuts in foreign aid. Thus, the budget deficit reached the peak of $5.3 billion in 1991, approximately18% as a percentage of the GDP.

When in crisis, increasing tax is also economically dubious, since both the private sector and state-owned enterprises are likely to be in trouble. Therefore, whilst the potential improvement in performance of SOEs is a factor, decreasing the budget deficit and refunding debt are more prominent reasons for the privatisation of SOEs, especially in countries that face a crisis. Consequently, ownership will be transferred to the private sector, and the government may cut subsidies and reduce government capital participation for SOEs. This would seem to be rational, although evidence also confirms that privatising SOEs can be a means of giving subsidies to the few and the rich, at the expense of the general public (Shaoul, 1997a; Kernot, 1996; Kenawy, 2009a).

2.4.3 International pressure

The influential actors in the endorsement of the privatisation policy, especially in LDCs, are the international lending agencies (the IMF and the World Bank). Babai (1988) and Aylen (1987) as cited in Mandell (2002) also confirm the vital role of the IMF and the World Bank in sponsoring such a policy around the world. Arnold and Cooper (1999) and Babai (1988), both note that the US government has been the key player in promoting privatisation, following the World Bank and IMF the agenda (Schirato and Webb, 2003). Chomsky (1999) goes further and identifies that besides the US government, "*the principal architects of such policy are the masters of the private* *economy, mainly huge corporations that control much of the international economy*" (p. 20). Thus, it is not difficult to recognise that most LDCs implemented the privatisation policy as a result of force rather than by choice.

The forces which act in developing countries have come about as prerequisites for loans that generally come under the flag of structural adjustment (Ramli, 2003, Ghosh, 2000). On this subject, Arnold and Cooper (1999) restate the work of Martin (1993), recognising that:

> "Although neo-liberal ideology spurred privatisation in some countries, the greatest impetus to privatisation came from the World Bank and IMF which, in response to pressure from the United States, made privatisation an essential component of their economic reform and structural adjustment programs" (p. 132).

LDCs that look for a loan from international lending agencies have no option but to accept (Cook, 1986) and implement such programs, even though they have been criticised as unnecessary and lacking focus as to the actual fundamental existing problems (Ramli, 2003b). For example; Egypt arranged numerous agreements with the IMF to solve its economic problems (IMF, 2001). In March 1991, the Egyptian government relied on the IMF to reach an agreement to borrow 278 million SDRs provided that it would implement a broad and comprehensive economic reform program. As a condition for this agreement, Egypt had adopted the requirements of the World Bank and IMF to transform and stabilise its economy by moving towards reliance on market control and free trade, and the promotion of privatisation (Subramanian 1997; Kanovesky 1997; El Dessouki, 2009).

In actual fact, the World Bank and the IMF not only take an important role in the encouragement of privatisation, but they also support an interventionist philosophy (Price, 1994b).Price (1994b) indicates that lending agencies are essential players in the privatisation policy, and have their own set of intentions which lead to the restrictions under which local government operates. As the IMF and World Bank have played a crucial role in assisting the public sector to expand, they are also essential in repealing the process. The World Bank and IMF have offered more than simply passive guidelines in those countries where their aid was needed. In the two decades prior to 1980, they were dynamic promoters of state involvement in the development process.

However, regardless of whether the policies forced through and promoted by the international lending agencies in developing countries are consistent or not, the positive or the negative outcomes of such policies were wholly the responsibility of the countries involved.

2.4.4 The political factor

An additional aspect which can impact on the introduction of privatisation is a political one. In relation to political considerations, Guislain (1992) has argued that privatisation has several benefits. Firstly, privatisation reduces the scope and size of the public sector or its percentage in terms of economic activity. It also reduces the ability of any future government to modify the measures taken by the current government to adjust the role of the state in the economy. Privatisation can also reduce the grip of a particular party or group upon a particular part of the economy. Finally, it can increase the government's popularity and the likelihood of that government being returned to authority by vote in the next election.

In the case of mass privatisation in the Former Soviet Union and Central and Eastern Europe, privatisation has been used to extend "*bottom-up political support from the population*" (Lieberman et al., 1995, p. 37). Although many different methods have been used in applying a mass privatisation policy (e.g., selling at book value and high discount prices), the allocation of vouchers for free or at a minimum price is the most favourable option in order to encourage a broader share of ownership, and to increase political support. In the UK, a political motive was strongly considered to be behind the radical policy used by the conservative government to privatise its SOEs (Marsh, 1991).

The role of the foreign investor has frequently been an important factor in the privatisation process, and can result in different scenarios depending on the treatment of those investors. The UK and Argentina have been at the forefront of allowing relatively non-discriminatory treatment of foreign investors whereas, in other cases, restrictions on foreign investment have been inhibiting (Ernst and Young, 1994; Estache and Fay, 2007). Several of the former Communist regimes have taken relatively moderate and often cautious steps to open up their energy industries to foreign investment. In general, these countries have relied on joint ventures with state controlled enterprises as an approved process for foreign investment in their energy industries.

2.5 Theoretical expectations of privatisation

Advocates believe that privatisation can provide the best opportunity for recovering MCS and firm performance. The vision that privatisation is essential for achieving improvement in performance has strengthened the notion that "ownership matters" (Commander and Killick, 1988). Relevant theories on the privatisation concept are the property right theory, the agency theory and public finance theories. Generally, these theories are dedicated to two types of efficiency. Productive efficiency stems from micro-economic theories of property rights and agency within contractual relationships (Adam et al., 1992), while the allocative efficiency theory covers the macroeconomic effects of privatisation upon private sector investments, capital markets and public finances (Parker and Kirkpatrick, 2006). The next sub-sections are devoted to reviewing at the microeconomic and the macroeconomic level these theoretical expectations that support the idea that private ownership is preferred to public ownership.

2.5.1 Privatisation and productive efficiency

There is an enormous amount of literature in microeconomics that tackles the question of why ownership matters. This question can be paraphrased by inquiring whether the decision process of the firm is bended when the state interferes and, if so, in what way(s). This can be analysed by looking at the components of the optimisation problem: the objective, the constraints and how they are affected under different types of ownership structures. Within the microeconomic theories, it has been theoretically argued that productive efficiency centres around a decrease in production costs, which can be attained by suitable management and proper incentives. In this regard, neo-classical economists indicate that private ownership inspires the execution of efficiency-enhancing policies.

Property rights are influential in achieving productive efficiency in the use of firm resources (Vickers and Yarrow, 1988a). It is argued that eliminating public sector property rights has an affirmative impact on the productive performance and innovation of firms (Erbetta and Fraquelli, 2002). Moreover, the agency theory declares that agents act simply out of self-interest, and consequently incentives have to be presented that encourage them to alter their aims to align with those of the firm. Agency theorists suppose that privatisation inspires the design of innovative MCS (Macias, 2002). In addition, privately owned enterprises are supposed to be directed by business goals, and the capital market works as a prevention to managerial non-profit performance (Ott and Hartley, 1991). Within the microeconomic theories, there are two perspectives behinds the existence of deprived incentives for efficiency in SOEs. The first one, termed managerial perspectives, advises that monitoring is inferior in publicly owned enterprises and thus the incentives for efficiency are hindered (Vickers and Yarrow, 1989). The second, the political perspective, claims that political interference distorts the objectives and the constraints faced by SOEs managers (Shapiro and Willig, 1990).

The *political perspective* indicates that poor efficiency under public ownership results from distortions in the objective function that managers try to maximise (Shapiro and Willig, 1990) and the constraints they face, via the supposed soft budget constraint problem (Kornai 1980, 1986). According to the public choice theory, SOE mangers aim to maximise pay, power and prestige by means of maximising the budget, rather than improving productive efficiency (William, 1971: Cited in Smith and Trbilcock, 2001). Thus, SOEs managers, who are liable to report to a politician and follow political careers themselves, integrate into the objective function aspects related to maximisation of employment at the expense of the productive efficiency, in order to gain political prestige.

The explanation as to how SOE managers are capable of doing so without facing the threat of bankruptcy relates to the second distortion, the soft budget constraint (Sheshinski and Lopez-Calva, 2003). If enterprises have engaged in unwise investments, it will be in the interest of the government to bail the firm out using the public budget. The justification for this stems from the fact that bankruptcy of the enterprise would have a high political cost, whose burden would be distributed within a distinct political group, such as unions. Alternatively, the cost of the bailout could be distributed between the taxpayers. Thus, the risk of bankruptcy is not feasible under the public ownership model.

As long as the political cost acquired by the state by closing the enterprise is higher than the cost of giving a subsidy and bailing it out, the SOE manager will always make the investment, in spite of the probability of failure. The state weights the two options politically: giving a subsidy financed through taxes, spreading the cost across groups of taxpayers, versus facing strong political opposition. In most cases, governments tend to select the former option (Shapiro and Willig, 1990; Sheshinski and Lopez-Calva, 2003).

Insufficient monitoring is the most important reason for the poorly controlled incentives of SOEs in relation to the *managerial perspective* (Vickers and Yarrow, 1989). Where there is no separation between the management and control of an enterprise, all efficiency gains of the enterprise accumulate to the owner/operator who then has every incentive to control the firm's efficiency. The effectiveness of the managerial perspective can thus be analysed in terms of management incentives, monitoring incentives and monitoring ability. Under private ownership, the lack of managerial incentives to improve firm performance is to some extent improved by the market (Smith and Trebilcock, 2001)

The product market might penalise poor management performance with unemployment by means of bankruptcy. Managerial performance under private ownership can be improved by linking managerial compensation to firm performance, which is simply identified by share prices and firm profits (Smith and Trebilcock, 2001). In contrast, the market has a less significant impact on SOEs because SOE managerial appointments are often made on a political basis as discussed earlier.

Similar to managerial incentives, monitoring incentives are much weaker in relation to SOEs than in relation to private ownership. Typically, a shareholder will merely monitor the performance of an enterprise if the shareholder can expect returns from its monitoring greater than the opportunity cost of the time and resources spent on monitoring (Shirely,1995). Alternatively, SOEs are owned by the state, and each citizen of the state is considered a shareholder of the state's SOEs. Given that these ownership interests are not transferable, the returns to citizen which result from monitoring would never be greater than the cost of the time invested in such activities (Alessi, 1980). In other words, the cost to a member of the public of sifting through two levels of government bureaucracy, firm managers and the government ministers responsible for them, to resolve the cause of firm inefficiencies and try to correct them would far exceed the benefits which improved firm performance would generate for that individual.

The third factor making private ownership more efficient than state ownership is the greater monitoring capabilities of private enterprise monitors when compared with public enterprise monitors. The information asymmetries which cause serious problems in SOEs are not so applicable in private enterprises, which are entailed by law to provide shareholders with information about firm performance (Smith and Trebilcock, 2001). Besides this, stock market prices provide a "ready reckoner" of corporate performance. Shareholders in a private enterprise are capable of using this information to improve firm performance in a direct way through their ability to elect and remove directors. Returning to information asymmetries, in contrast to the one overarching objective facing private enterprise – profit maximisation – SOEs may have multiple non-economic and economic objectives. Moreover, these objectives may conflict or vacillate wildly over short periods of time, depending on government political stability (Smith and Trebilcock, 2001). Therefore, it is difficult for SOE monitors to properly assess the performance of SOE managers who can charge poor enterprise performance to the non commercial objectives. These arguments show that privatisation has charges that are usually related to the need for regulation of asymmetric information. The proposition is that under competitive conditions, privatisation must result in a net gain.

From the above, it can be concluded that competition is what matters; dealing with ownership itself should be at a low level in the hierarchy of policy recommendations. As noted by Stiglitz (1993), it is feasible that productive efficiency gains can be attained through the introduction of competition and the maximisation of market contestability by means of deregulation policies. Further to that, competition by itself will not work if the soft budget constraint remains. It is the fear of bankruptcy that gives competition its effect.

2.5.2 Privatisation and the allocative efficiency

The discussions of the macroeconomic effects of privatisation are not as rich from a theoretical perspective as they are from microeconomic level. There are a few theoretical models that link privatisation at the microeconomic level with macroeconomic performance. However, there are some country level studies which offer data on the relationship between macroeconomic variables and privatisation transactions. The most significant reason why this work has not been done extensively is the problem faced in separating the effect of privatisation from other economic variables that have an influence on aggregate measures (Sheshinski and Lopez-Calva, 2003).

As per Adam et al. (1992), competition created by private ownership is necessary in achieving allocative efficiency at the macro level as, during this practice, critical information is exposed, which is necessary for an efficient utilisation of a firm's input. If competition is weak, it will be more complicated to perceive signals on the basis of which an appropriate input-output balance can be determined. Additionally, because of managerial inefficiency or lower levels of demand, profits may decrease. Neo-classical economists maintain that the allocative efficiency of SOEs is deprived because the politicians and the managers are motivated by goals that do not match with the interests of the company. They also indicate that a sufficient allocation of resources will be inspired by measures such as market pricing, the elimination of import restrictions or quotas, the encouragement of the private sector, and the restriction of government activities by closing state enterprises, and contracting out government functions to the private sector (Toye, 1994). The argument is that private rather than public ownership will create more efficient enterprises and will be beneficial to industry, the consumers and the country as a whole, on the macro level (Donald and Hutton, 1998; Ogden, 1997; Shaoul, 1997; Goodman and Loveman, 1991).

According to Sheshinski and CaIva (2003), one needs to look at the interface between privatisation and public sector financial health. It has to be expected that more aggressive privatisation programs would result in lower budget deficits. Privatisation allows the government to increase funds immediately and eradicates the need for permanent subsidies to former SOEs. On the other hand, the overall assumption that privatisation essentially causes a fiscal gain is incorrect, although that is a reasonable assumption if one supposes that net subsidies will be eliminated and firms will perform better. If firms move from shortage to surplus in their business, the government will not only get rid of subsidies, but also gain from collecting taxes levied on them. The real change in the financial position of the government is determined by the difference between predetermined dividends and taxes collected from the firm. Potential superior dividends of the firms under private ownership must also be revealed in the earnings the government attains during the sale, adjusted for under-pricing in the case of a public offering (Perotti and Guney, 1993).

Rogozinski (1998) indicated that the allocation and use of earnings from privatisation determines to a large extent the effect of privatisation on public sector cash flows. If the proceeds from the sales are used to decrease public debt, as is the case in the majority of countries, one would expect reduced interest payments and accordingly a better cash-flow situation in the public sector. Moreover, Sheshinski and Calva (2003) also indicated that an additional significant macroeconomic effect of privatisation, particularly when it is done via public offerings and mixed sales, is the increase in the stock market capitalisation and the improvement of the financial sector as a whole.

Finally, the impact of privatisation on public sector borrowing requirements must be revealed in lower interest rates which promote growth, investment and lower inflation. In addition, from a theoretical perspective, the sale of public sector enterprises should decrease the aggregate level of employment in the short run because of the exclusion of redundant labour. Even so, unemployment can decline in the medium and long term as the rate of growth of the economy increases due to the efficiency gains at the micro level and the increasing stability at the macro level (Sheshinski and Calva, 2003). These theoretical expectations support the idea that private ownership is preferred to public ownership.

The following section focuses on the expected impact of micro and macro privatisation theories on firm performance.

2.6 Privatisation and firm performance

The advocates of such policy consider privatisation is likely to increase firm performance in terms off profitability, operating efficiency and output, as well as risk and employees social responsibility for two reasons. Firstly, from a micro perspective, it is assumed that privatisation will force companies to be more commercially oriented, will foster greater competition, and will encourage individual initiative on the basis of entrepreneurship. A second way in which privatisation could improve firm performance is from the viewpoint of the macro perspective. Market forces, which privatisation essentially relies on, should influence the government to free SOEs from political interference and bureaucratic hindrance. This, in turn, could result in a reduction of costs at an enterprise level due to the breakdown of hierarchical and bureaucratic processes. Likewise, at macro level, increased efficiency and decreasing national budget spending would follow from the reduction in the number and size of public enterprises.

It may stop the drain on the government budget that stems from the poor performance of public enterprises.

Most of the research papers that reviewed the privatisation program all over the world followed a standard technique that was developed to examine the above-mentioned privatisations theories; a technique initiated by Megginson, Nash and Van Randenborgh (MNR, 1994). However, most of the research reviewed was found to use practically the same variables, as well as following the same technique, as can be seen in Appendix (A). A comprehensive academic work has been undertaken to assess the performance of the privatised SOEs and the different implications of the privatisation process. Numerous academic papers deal with this matter at many levels: case study, single country and international levels, both for emerging and developed markets. In this sub-section, the research explanations for their proposed hypotheses regarding firm performance are presented, regardless of the level at which these studies were undertaken (whether it was conducted as a case study, for a single country, or on an international level) and also regardless of whether they were conducted for LDCs or developed countries. These explanations are listed in the order of the variable to be measured, simply for the sake of simplifying and clarifying the comparison with the empirical findings of this study.

2.6.1 Profitability

Based on the theoretical expectations presented in the previous section, it is expected that privatisation will increase profitability of firms because they will no longer be constrained by social objectives. Furthermore, in order to motivate managers of the SOEs to achieve these non market benefits, governments provide SOEs with a variety of indirect subsidies, such as reduced prices on inputs and implicit guarantees to cover operating losses (MNR, 1994; D'Souza et.al, 2005c, Omran, 2009). Therefore, switching from being a state-owned firm to a private firm implies that the goal of the firm, regardless what it previously was, is going to change to become a "wealth maximisation" goal. Exposure to the benefits and penalties of the open market is also expected to push the employees in terms of raising revenues and lowering costs.

2.6.2 Operating efficiency

Operating efficiency reflects the effectiveness of an enterprise in its ability to achieve a high level of sales and income per employee, just as a result of the labour productivity.

By turning the SOE into market competition, the government clearly hopes that these firms will employ their human, financial, and technological resources more efficiently and more effectively. The owners, as well as the employees of a private company, capture most of the benefits of efficiency improvements. Given that labour productivity is expected to improve after privatisation, regardless of whether employment will increase or decrease following the privatisation program, one might argue that the operating efficiency of SOEs should improve after the privatisation program (Boardman, Laurin, and Vining, 2000; Boubakri , Cosset, and Omrane, 2008).

2.6.3 Output

Shleifer and Vishny (1993) indicated that governments would be willing and able to subsidise inefficiently high output in SOEs in order to maximise employment or achieve some other socially desirable goals. Furthermore, social objectives are also expected to increase investment opportunities. However, MNR (1994) indicated that it may also be expected that privatised firms would increase capital spending after the privatisation program for many reasons. Firstly, these firms would potentially have greater access to private debt and equity markets than SOEs. Secondly, if privatisation is accompanied by deregulation and market opening, the former SOEs will require very large investment spending in order to become competitive with other private firms. Thirdly, almost by their nature SOEs tend to stress labour over capital inputs in their production process, and the power of the politicians, labour unions, and other interest groups tends to leave SOEs employee-rich and capital-poor. As such, it is expected that these forces would be reduced following privatisation. Fourthly, removal of government control over the SOE also eliminates the government's ability to force SOE managers to produce a politically attractive performance, and to focus more on an economically efficient one. Resources used in this way can be reallocated to higher valued uses. Finally, privatisation promotes better opportunities, and new means to invest in growth options both at home and abroad. Based on the above, the output level of an SOE should increase after privatisation.

2.6.4 Risk

While privatisation policy is primarily based on increasing the efficiency of the former SOEs, it is also true that the switch from the state ownership to the private ownership will have a predictable impact on the firm's capital structure. The move from public to private ownership may be accompanied by a decrease in the portion of debt used by the company in its capital structure, for a number of reasons. First, alternative sources of finance would be available, where the company has better access to the public equity markets, both domestically and internationally (D'Souza et al., 2005, Boubakri et al., 2005c). Second, the state's withdrawal from the debt guarantees increases the cost of raising debt to the company. As a result, the cost of debt would be more comparable with the previous situation when the public sector was used to having debt at a privileged lower rate and extensive debt financing, because they are borrowing under the name of the government (D'Souza and Megginson, 1999; Fan and Wong, 2007). Thus, the privatised SOEs would gain a private management with a clear responsibility for the decision-making process. The decision makers consider thoroughly their debt paying ability and the degree of default risk embedded in the decision. Therefore, based on the above, it is expected that the debt levels of the SOEs should decrease after the privatisation program.

Moving from being a SOE to becoming a private firm implies that a new management will be put in place; if not a new management team, then at least a new management culture. Consequently, the policies adopted by the company are expected to be modified. The credit policy is such policy expected to be modified after privatisation, particularly because of the problems that the SOEs used to face in the collection policy (Ashour et al, 1997). The SOEs did care about achieving revenues, regardless of whether the revenue achieved was in cash or on account, because the basis on which they would be assessed was on the grounds of achieving those revenues, regardless of whether it was in cash or credit, and whether it was collected or not. Unlike SOEs, privately owned enterprises do not only care about achieving revenues but they do care about getting the cash. This implies that the credit standards are expected to be more restricted after the privatisation program. Furthermore, the SOEs are managed by the government, and the government units do not work as profit centres, and thus the transfer of products from one unit to another is not paid for in cash, rather book entries are used. Credit transactions are commonly used between government units, so a change of ownership to the private sector would also be expected to get rid of those types of transactions (Ashour et al, 1997).

While the liquidity of the accounts receivable, or the credit policy adopted, is taken as a factor affecting the liquidity of an enterprise, it is expected that the average collection period of the SOEs would decrease after the privatisation program, because the management is expected to pay more attention to collecting cash.

When examining the liquidity of inventory as a factor affecting the enterprise's liquidity, it is expected that the inventory selling period of the SOE will be shorter after the privatisation program. This is mainly due to the shift from being product-oriented to being market-oriented, due to the change in the incentive systems, and the emphasis in privately owned enterprises on marketing research and research and development programs, which will all have a direct effect on the inventory conversion cycle. Ashour et al. (1997) assert that the inventory of finished goods is over accumulating in SOEs, for many different reasons. For instance, most of the managers of SOE's are production-oriented, thus they produce, and then try to sell what they have produced, regardless of whether the market is in need of the product or not, and regardless of whether they can actually sell them or not. The main reason for this is that the performance appraisal being used to assess those managers' performances takes the production level as its target, rather than the sales level, and this of course leads to inventory accumulation. The usual consequence of this was that the quality level of the products produces by SOEs was low, which then made it even more difficult for the managers to sell the accumulated inventory.

Privatisation programs are expected to get rid of that sort of process. This is principally because, after privatisation, the former SOEs would have new owners who genuinely care about the profitability of their own company. As a result, such owners would try to avoid the huge accumulation of inventory. To be more specific, it is expected that more attention would be paid to the following: (1) the number of units ordered is expected to be controlled, unlike with the SOEs, who were able to access subsidised raw materials in very large quantities, and, (2) the total cost of the inventory is expected to be lowered, in order for the company to be able to compete in the competitive market that the newly privatised SOE is placed into. In conclusion, the former SOEs are expected to become more market oriented after privatisation.

2.6.5 Employees social responsibility

The impact of privatisation on labour depends on the initial conditions of the SOEs. Large-scale labour force reductions often resulted from selling large SOEs when privatised entities were exposed to greater competition. The more governments privatise such firms and the greater the exposure to competition, the greater the reduction in the number of employees (London Economics, 1996, Boubakri and Cossett, 1998).

Consequently, a pre-privatisation fall in employment resulted from the government's efforts to revamp firms before divesting them. Boubakri, Cosset, and Guedhami (2005c) found that privatised firms which are thus exposed to competition are likely to reduce employment. Finally, D'Souza , Megginson, and Nash, (2005) indicated that most SOEs tend to be over-staffed, because one objective of establishing the public sector in the first place is to create as many employment opportunities as possible. In this sense, extensive layoffs are expected to take place following privatisation, because of the style of new management, since social aspects would no longer be considered above business objectives.

Firm performance	Proxies	Expected change
Profitability	Earnings before interest and tax to asset (ROA) Earnings before interest and tax to equity (ROE) Earnings before interest and tax to sales (ROS)	Increase Increase Increase
Operating Efficiency	Sales efficiency Income efficiency before interest and tax	Increase Increase
Output	Real sales	Increase
Risk	Total debt to total asset Long term debt to equity Days of receivable Days of inventory	Decrease Decrease Decrees Decrease
Employees social responsibility	Total employment Bonus payment per employee Training cost per employee	Increase Increase Increase

Table 2.1: Expected changes of firm performance after privatisation

In addition, privatisation can also have an impact on salary levels and training schemes, working conditions, and bonus payment (Gupta et al., 1999). However, the time frame is an important factor, in that initial pay cuts are normally followed by wage increases at some point in the future. In the cases of the U.K, Mexico, and Malaysia, workers benefited from higher wages, benefits and a greater training budget after privatisation

(Galal et al., 1994). Pohl et al., (1997) also found that privatised enterprises in Eastern and Central Europe demonstrated a significant increase in the growth of their real wages, due to a substantial increase in productivity in the post-privatisation years. Privatisation often causes a shift toward more performance-oriented pay schemes, larger wage differentials, and more flexible working conditions.

In summary, for SOEs, which typically overstaffed and paid excessive wages, privatisation might lead to a reduction in employment and wages, at least initially. Over time, if a privatised enterprise can expand its activities and gain more competitive advantage, its training, pay schemes, employment, wages and bonus payment will all be expected to benefit. Table 2.1 summarises the discussions in this section and the theoretical expectations regarding firm performance.

2.7 Methods of privatisation

According to Gray (1996), privatising large enterprises, especially in transition economies and developing countries, has actually turned out to be more complicated than most observers originally anticipated.

Although for presentation purposes the various methods of privatisation are dealt with separately in these sub-sections, all countries have used a variety of methods and to a greater or lesser extent, concentrated on those methods which seem appropriate or successful in their own circumstances. However, there is no right or wrong answer as to which method is best. What matters is what is most appropriate for the conditions at hand.

2.7.1 Public offering

According to Pennell and Robertshaw (1999), a public offering consists of the sale of a company to the public via the stock market or a similarly organised market. This can be exercised in either the international or domestic capital market, or both. It is a preferred strategy for promoting the capital market, and for achieving wider share ownership, while simultaneously bringing about transparency (Vuylsteke, 1988; Parker and Saal, 2003).

Public offering of shares may include the selling of full or partial shares either from existing shares or via the issue of entirely new shares (Waide, 1998). If new shares are sold (with proceeds accruing to the company), and if the private investors hold a majority of those shares, then privatisation is achieved by dilution. It may be necessary or reasonable to sell less than 100% of the shares if (a) the value of the company is high relative to the absorptive capacity of the market, (b) the market is unwilling to purchase too high a proportion of shares of one type, and (c) if it is judged that a higher share price could be obtained in the near future for the remaining shares.

Parker and Saal (2003) indicate that there are four conditions which must be met before a public offering is possible. Firstly, the enterprise must be strong and have a valid earnings potential, or be capable of being reconstituted to meet these requirements. Secondly, there must be transparent financial information available for disclosure. Thirdly, there must be apparent liquidity in the local market. Finally, either the equity markets must be developed or some structural mechanism must be used to attract investments and capital inflow.

Gray (1996) indicated that this approach is necessarily limited by the relatively small size of the stock markets in developing countries and transition economies. It also tends to work only for those profitable firms with sound financial prospects and solid reputations. This approach is not valid for restructuring firms; not only because poorly performing companies are not likely to be listed successfully, but also because of the spread ownership structure that result. Consequently, it is unlikely to create real opportunities for owners to exert pressures for change in the firm.

Public offers have two critical flaws in countries with undeveloped equity markets. First, public offers lead to "wandering" ownership, which creates productive inefficiencies in countries without an established market to provide a means of changing corporate governance. Second, large equity issues in small markets cause prices to drop. For example, the 1992 offering of Telefonica, in the Argentine Telephone Company, caused a stock market crash and severely delayed other sales (Waide 1998).

Blanchard et al. (1991) noted that public offerings could also delay privatisation when accounting rules were inadequate. The time required to obtain and distribute advice on the investment quality may make a public offer undesirable. Also, the requirement for expensive accounting expertise to assess potential profitability has often deterred the use of public offers on a mass scale. On the whole, Gray (1996) indicated that public offerings are clearly not the answer to the need for large scale and rapid privatisation, but on the margins they can help develop capital markets and share trading.

2.7.2. Asset (private) sales

Pennell and Robertshaw (1999) indicated that private sales could occur through a competitive bidding process or by private negotiation on a case-by-case appraisal of potential buyers by the privatisation agency. This process often produces higher government revenues through competitive bidding, and it also costs less to operate than a public offering. Private sales limit the possibility of broad public ownership and, as they do not require the issuance of trading shares, they do little to stimulate capital market development. Private sales also include the sale of subsidiaries by SOEs, which has historically represented a crucial proportion of privatisation activity in a number of countries, most notably France and Italy.

The initial goal of this method, according to Havrylyshyn and McGettigan (1999), is to sell state assets to outside investors, given the under-developed state of domestic capital markets. The purported advantages of this approach include revenue earnings, the introduction of outside expertise and an inherent flexibility. Corporate governance is also likely to be more effective with external owners.

According to World Bank data of 2001, this approach also has a number of drawbacks. For instance, a lack of domestic capital and "weak foreign" investor interest, together with the poor quality of information available in relation to enterprises, has repeatedly stalled such sales. In addition, the general public may observe the process as unfair. Furthermore, this approach also tends to be costly and slow due to the complex administrative tasks of preparing each state property for sale individually and subsequently ensuring that buyers fulfil contract provisions. The difficulty in valuing firms to be offered for sale, both for reasons of inadequate accounting and general political and economic uncertainty, further complicates the process.

The other obstacle to private sales is that they are difficult to determine when there are only a few acceptable large investors. The initial rationale for many SOEs, which are often among a country's largest firms, was the inability or unwillingness of investors to handle large investments (Van de Walle, 1989). Another problem is that private sales may concentrate ownership in the hands of conglomerates that can exert monopoly power (Berg and Shirley 1987). Selling to foreigners who are able to pay more for SOEs, and who are the most able to improve management and introduce modern technology, is often the most beneficial solution, but is often politically difficult.

2.7.3 Employee / Management Buy Outs (E/MBO)

Employee and Management Buy Outs (EMBOs) involve the sale or donation of shares in the relevant enterprises to a combination of managers and employees. Employees and managers occupy powerful positions, and this approach may also have the advantages of ready feasibility and political popularity.

This method does indeed have several advantages. An EMBO is relatively quick and easy to implement from both a political and a technical standpoint. The second advantage is one that is stressed by most proponents of employee share-owning plans (ESOPs) in advanced market economies; insider ownership can be both more efficient and, in certain situations, more equitable than outside ownership (Hansmann, 1990; Earle and Estrin, 1996; Shleifer and Vasiliev, 1996). According to Gray (1996) it can be more equitable because it rewards those who do the work, which is ironically the argument at the very heart of socialism, and because it has the potential to mitigate 'principal-agent' problems between owners and workers. If the process of obtaining information is costly (which it always is, especially in LDCs), the principal or owner will not be able to properly monitor the agents (the manager and workers). Insiders know more about what is happening in the firm and, if given the incentive, will be able to carry on other practices that benefit them at the expense of the owner. To the extent that the employees are themselves owners, the conflict of interest is reduced. Managers and non-managerial employees may be willing to work harder, monitor each other more carefully and encourage greater productivity if they reap the residual gains.

Gray (1996) investigated whether the potential advantages of EMBOs are counterbalanced by considerable disadvantages, which could be particularly acute in LDCs. Giving preferences to insiders inhibits, if not eliminates, competition in the privatisation process itself. To the extent that more qualified potential owners are not given the opportunity to share, the resulting ownership pattern is likely to be sub optimal for the economy as a whole, at least initially. Secondly, insiders are not able to bring new skills and new capital to the company, and managers may have few of the skills needed in a market economy. Initial research in Central Europe appears to confirm that firms privatised to insiders carry out less restructuring and attract less new investment than firms acquired by outsiders (Earle et al. 1994). If corporate law and disclosure are undeveloped and thus provide little protection for outside shareholders, as is true in almost all LDCs, outsiders may be reluctant to invest at all in firms with significant insider ownership.

This approach to privatisation suffers from a variety of critical disadvantages. The process may be biased in that employees, rather than the public at large, reap most of the benefits that result. The literature on labour managed firms suggests that insider dominated firms may end up granting excessive wage increases, may maintain above optimal employment and undertake insufficient funding. Some empirical evidence suggests that insiders may have few of the skills necessary for a market economy. As a result, employee ownership has tended to evolve into investor ownership over time. Despite its many disadvantages, EMBOs have historically been a popular form of privatisation, especially in transition countries such as Croatia, Macedonia, Poland, Romania and Slovenia.

2.7.4 Management contracts, leases and concession

Management contracts and leases of state assets are methods that can be used when the government cannot or is not willing to sell SOEs. This practice is common in many LDCs with very poor financial markets. By privatising management, this method can improve efficiency (Vuylsteke, 1988). The continued link between the firm and the government budget may limit gains. However, contract and lease can also be used to improve an SOE's performance prior to privatisation (Bouin and Michalet 1991; Grimsey and Lewis 2004).

According to Waide (1998), leases allow the lessee the right to use a group of assets for a short term, usually 4 to 5 years, but the owner remains responsible for adding to those assets and maintaining the existing assets during the period of the lease. Performance criteria are established and the fees payable are usually performance-related. Waide also pointed out that management contracts are similar in many ways to leases, in that a contract will normally be for a relatively short period, and the owner retains the obligation to maintain the assets. This device is commonly used as a last resort in cases where the company cannot be sold by other methods, and where liquidation is considered to be an unacceptable option.

Concession is a long-term lease of assets (often 25 to 30 years) under which the concessionaire has the right to control the business and the obligation to maintain existing assets as well as those assets as required. A concession is awarded by competitive tender, with evaluation criteria that include the experience of the bidders, the level of lease payments (or subsidies required), and the investment plans proposed. Concessions have become the preferred privatisation tool for railroads (e.g.Argentina, Brazil, Malawi and Mozambique), although there are also many examples of outright privatisation (Japan, U.K and New Zealand). There is growing evidence that in railroads it makes sense to separate the ownership and operation of the track infrastructure from those of the users (e.g. freight companies, passenger companies) (Waide, 1998).

Concessions have also been successfully used in the privatisation of water supplies in France and West Africa. The concession contract or licence needs to include complete performance criteria and exit arrangements, including pay for new assets with unexpired lives (Waide, 1998). The disadvantage of this approach is that the incentive to extend equipment or undertake new venture or business opportunities might not be provided. However, most long-term concessions usually include funding requirements (Grimsey and Lewis 2004).

2.7.5 Vouchers

Pennell and Robertshaw (1999) indicated that mass privatisation through vouchers entails the public distribution of a firm's shares to citizens through vouchers that can be exchanged for stocks during the bidding process. This method was used across Central and Eastern Europe in the early stages of the transition from state to market based economies, and found success in a few countries such as Lithuania and Estonia. Havrylyshyn and McGettigan (1999) consider that voucher privatisation helps to overcome one main problem of privatisation, in particular in LDCs that suffer from a shortage of domestic capital. Voucher schemes were, at the outset of the transition, politically popular because they addressed the perceived unfairness of other privatisation methods and avoided the charges of a sell-out of national assets to foreigners. Voucher privatisation is more transparent and fairer than, for example, privatisation by direct placement. The difficulties associated with valuing enterprises before privatisation are also avoided.

The other benefit of this method is that it is an extremely quick and easy way of completing large economy-wide privatisation programs of the type needed, especially in LDCs. Lipton and Sachs (1990) argue that a fast pace of reform, facilitated by voucher privatisation, would add to the credibility of reform programs, thereby bolstering their chance of success.

The disadvantages of this method are numerous, including the following significant issues; reducing the proceeds accruing to government, reducing attractiveness to foreign investors, and potentially undermining corporate governance after privatisation due to certain economically inefficient advantages given to insiders. For example, the diffuse ownership base created through voucher privatisation can allow managers to carry on the privatisation as before because they continue to maintain greater stockholder control than the large number of citizens who own a relatively small proportion of shares in the company, thereby making fundamental change difficult (Pennell and Robertshaw, 1999).

In conclusion, choosing the best practice or combination of methods is a critical first step in the privatisation process. Each company requires independent and specific analysis. Numerous factors need to be taken into consideration and, as a result, there is no universally applicable scientific methodology which can be relied upon in every case. Judgement must be exercised in the light of experience gained from other countries which have undertaken privatisation programs, and in the context of declared privatisation policies.

2.8 Summary

Privatisation has historically been examined and viewed in different ways. Although the many interpretations cannot be avoided, it can best be defined from the macro and micro standpoints. On the macro side, privatisation is defined as a policy introduced to change the government's role in the economy whilst, from a micro standpoint, it means transferring ownership and control of SOEs to the private sector. The second is frequently known as the privatisation of SOEs. In the context of centrally planned economies, privatisation is seen as a transformation from a state-focused economy to a market-focused economy. It comprises transferring ownership and control of a large number of SOEs to the private sector via what is known as "mass privatisation".

As can be seen from the discussions in this chapter, although the transfer of ownership and control is the central issue of privatisation of SOEs, many different methods of privatisation of SOEs have actually taken place. Moreover, whilst it is argued that the poor performance of SOEs is believed to be the major reason behind privatisation of SOEs, there are in fact likely to be several other reasons behind the implementation of such policies, including financial problems faced by the state, international stress and political causes.

Advocates of privatisation share the view that it inspires the development of firm performance. Theoretically speaking, privatisation is considered to lead to an efficient form of market capitalism, abolishing all failures associated with the public mode of production. Privatisation theories indicate that incentive and contracting problems generate inefficiencies caused by public ownership, because managers of SOEs pursue objectives that differ from those of private firms, and also face less stringent monitoring. Not only are the managers' objectives distorted, but the budget constraints they work within are relatively relaxed, and the soft-budget constraint stems from the fact that bankruptcy is not a feasible threat or consequence for managers of SOEs. Consequently, the change from public ownership to private ownership results in more precise and more measurable objectives on the part of the holders, which then shapes the environment and incentives to promote, monitor and control management more successfully, thus increasing firm performance.

Finally, it is essential to be aware of the difference between the characteristics of developing and developed countries. In general, privatisation was initially introduced as a policy strategy in developed countries. These countries are characterised by having a well-built institutional capacity. In contrast, a shortage of institutional and administrative capacity is always inherent in LDCs. It is believed that considering the implications for privatisation theories in general, and the country characteristics of LDCs in particular, could help to answer the question as to why these privatisation theories may not be applicable in LDCs. This issue is investigated in more detail in the next chapter.

CHAPTER 3
Less developed countries perspective (LDCs) and the external factors

3.1 Introduction

Privatisation is widely promoted as a means of improving firm performance in LDCs. However, the policy remains contentious, and the roles of ownership and other structural changes, such as regulation and competition in improving firm performance remain uncertain.

The adoption of Western theories by LDCs might have led to different results because of the different socio-economic, political and cultural circumstances in existence in LDCs. However, matters such as whether privatisation actually meets expectations regarding better firm performance and the way in which MCS changes take place have until now not been fully addressed in the context of LDCs (Boubakri et al., 2008). At the same time, studies into the effect of privatisation on firm performance have thus far produced inconclusive results. While a number suggest that privatisation has raised firm performance, measured for instance by means of higher profitability and reduced cost (e.g. Megginison et al. 1994; Boubakri et.al, 2008; Dewenter and Malatesta, 2001), other researchers have proposed that performance improvements have not necessarily occurred (e.g. Martin and Parker, 1997; Willner, 2003; Estache and Fay, 2007).

On the basis of the evidence presented in this chapter, one could argue that privatisation may not necessarily produce the outcomes as claimed in many privatisation theories. This chapter discusses the theoretical arguments regarding privatisation, and the way in which external factors can actually shape MCS and firm performance in LDCs. The structure of this chapter is as follows: the next section presents specific differences in existence in LDCs which may hinder the ability of a firm to perform in accordance with privatisation theories. Based on these assumptions, section 3.3 discusses the theoretical arguments which exist in relation to privatisation. The evidences of privatisation are presented in section 3.4. Section 3.5 describes the external factors which affect the success of privatised firms in LDCs, along with an exploration of relevant external contextual factors that affect the change of MSC and impact on firm performance. Finally, section 3.6 summarises the aforementioned discussions.

3.2 Specific differences in LDCs

Generally, privatisation is considered as an apparent solution to problems experienced by the SOEs (Shirley and Walsh, 2001). Market mechanisms are supposed to improve firm performance and enhance public finance problems (Cook and Kirkpatrick, 1988). The assumption is that the transfer of property rights to the private sector and the resulting competition will inspire the development of business goals and the improvement of MCS (Rees, 1985: cited in Wickramasinghe *et al.*, 2004). Therefore, the proposition is that ownership does matter. In addition, it is indicated that imported Western MCS facilitate firms to set and achieve their objectives, such as for example profit maximisation (Jensen and Meckling, 1976). Consequently, these "micro level profits" will then result in "macro level development" (Tinker *et al*, 1982). Throughout this "profits" mechanism, the production means will be unlisted more "effectively and efficiently" (Rees, 1985). Thus, changes in ownership increases "profits", thereby increasing firm performance.

Before accepting this theoretical assumption, it is important to recognise that a country's characteristics may significantly affect privatisation policies and consequently firm performance (DeCastro and Uhlenbruck, 1997). As stated by Picciotto, 1999; "*In all societies formal rules enacted by the state influence social behaviour only indirectly, filtered through layers of formal and informal social institutions, and normative patterns and practices*" (p. 3). In other words, it is also necessary to recognise that the characteristics of countries within developing economies differ significantly to those of developed countries (Parker and Kirkpatrick, 2005).

In general, privatisation initially came about as a policy strategy in developed countries. These countries were characterised by having mature capital markets and stock exchanges, banks and other loan creditors, venture capitalists, an effective legal system to protect private property rights, and conventional business standards ('business ethics') to facilitate market exchange. None of these institutions can automatically be taken for granted in developing economies. The economic foundations of privatisation lie in theories concerned with principal–agent relationships and property rights, and with more effectively controlling managerial discretionary performance than when influenced by politicians or government officials. On the contrary, in developing countries, these theories, with their emphasis on effective 'corporate governance', are not necessarily applicable (Parker and Kirkpatrick, 2005).

LDCs lack liquid capital markets to promote share trading and the sorts of takeovers that efficiently police management actions which can be found in the private sector in the UK and USA. In other countries, for instance Germany and Japan, this monitoring role of management is filled by banks that have strong relationships with firms, but in developing countries the banks may be poorly capitalised, deficient in business experience and operating within a weak regulatory and supervisory regime (Brownbridge and Kirkpatrick, 2002). Not surprisingly, a shortage of institutional and administrative capacity has hindered the improvement of competition policies and the establishment of regulatory agencies to prevent market abuse in most of such countries (Parker and Kirkpatrick, 2005).

The market and country conditions in LDCs are not sufficient to ensure the proper functioning of a private sector. Monopolies of state enterprises and bureaucratic rules and impediments critically affect the development and success of the private sector; for example, the lack of choice of geographic locations, price controls, and restrictive labour policies regarding productivity bargaining, wage negotiation and the position of unproductive workers. Besides this, factors such as the ambiguity of the legal and policy framework, requirements for the use of local supplies, arbitrary and slow decision-making, and a large amount of corrupted institutions, all play a part in slowing the development of a favourable business environment. Moreover, limited access to resources and support services, such as stock markets and financial information, make it difficult for firms to operate successfully. Other conditions that affect the functioning of privatised firms are excessive government borrowing and exchange controls, foreign trade regulations, heavy taxation, monopolisation and socio-political instability (UNIDO, 2000).

In addition, in some LDCs, there is no mechanism to protect private property rights, which discourage organisations to make investments due to the threat of expropriation. Moreover, because of the absence of well-developed markets, only certain groups (those with high incomes who can count on government backing) are in a position to reap the benefits (Saha and Parker, 2002). Furthermore, local entrepreneurs who have purchased public enterprises may not possess the necessary working capital and management skills required to make their businesses a success.

In this regard, Chisari et al. (1997) indicated that privatisation will not be successful unless it is associated with macroeconomic stability, deregulation and liberalisation. Thus, creating a suitable business environment is a primary prerequisite for privatisation in LDCs, in order to create an environment in which the private sector can effectively and efficiently operate. In the case of LDCs, the poor infrastructure, inconsistent macroeconomic policies and underdeveloped financial systems all negatively affect the performance of the private sector (Kennedy and Hobohm, 1999; Estache and Fay, 2007). Consequently, the status of LDCs in the world trade is marginal. Brunetti et al. (1997) also assert that institutional barriers are responsible for undermining a suitable business climate in LDCs.

Features	Developed countries	Developing countries
Product market	Competitive	Imperfectly competitive and incomplete
Labour market	Organised and competitive	Regionalised and ethnically distinct, with appointment through connections
Capital market	Competitive	under-developed
Management	competitive and institutionalised management training	Managerial weakness and patronage in appointment
Property rights	Protected and well -defined ; understood standards of business conduct	Poorly protected
Public administration	Usually relatively high standards of probity	Relatively low standards of probity , including cronyism and corruption

Table 3.1: Summary of the difference between developed and developing countries
Source: Parker and Kirkpatrick, 2005.

In summary, table 3.1 provides an overview of what appear to be the fundamental differences between developed and developing countries with respect to markets, management, property rights and government. Of course, there are differences within both developing and developed economies as well as between them and, thus, the above listing provides an overly-stark picture of these differences. Nevertheless, the summary highlights some of the key reasons which might explain why privatisation impacts differently in the developing and in the developed world. Differences exist in resources, product and management labour markets, private property rights tend to be less protected and less well defined, business conduct conducive to mutually beneficial trading is not so well entrenched, and government integrity is not guaranteed.

One can conclude that it is vital to conduct privatisation studies in the context of LDCs. There are serious doubts as to whether privatisation has actually produced the results as claimed by its theorists and advocates. In spite of some optimistic expectations, researchers have identified a number of theoretical problems supported by empirical evidence.

The following section focuses on the viewpoints of those who are critical of the micro and macro economic theories on privatisation as presented in the previous chapter. Although the privatisation process is vital to improving the economy and stimulating firm performance, there are a large number of specific contextual factors that influence the success of such a policy in LDCs.

3.3 Theoretical arguments for privatisation

Some strong theoretical suppositions were presented in chapter 2, which argue that privatisation should improve firm performance, through enhancing allocative efficiency on a macro level and productive efficiency on the micro level. There are numerous researchers who criticise the applicability of these assumptions, especially when it comes to LDCs. This section is devoted for presenting the argument for privatisation, its social impact, alternatives for privatisation and applicability of privatisation assumptions.

3.3.1 The social impact of privatisation

Some arguments may concede that privatisation is of economic benefit, but all the questions posed are about its social utility. The opponents of privatisation argue that the benefits of privatisation are only felt by the rich, the agile, the corrupt and the foreign, at the expense of poor nationals. They declare that privatisation negatively affects the majority of citizens, since it harms consumers as a result of higher prices, workers due to lost jobs, and taxpayers in general, owing to government understating pricing of assets, and the inability of poor trained and underpaid public bureaucrats to prevent the stratagems of intellectual private investors. The overall claim is that privatisation contributes to poverty and inequality.

Privatisation is usually viewed as an alarming trend by public employee groups. In some cases, privatisation results in the laying off of public sector employees, although in practice, governments often reassign them to other government jobs, place them with private contractors, or offer them early retirement programs. These possibilities have been particularly upsetting to those who participate in public employee unions, which have been at the forefront of efforts to block privatisation (Wang, 2009).

Undoubtedly, privatisation does generally result in job losses. For instance; 150,000 employees lost their jobs in Argentina between 1987 and 1997, approximately 50% of all employees in privatised firms in Mexico in the 1990s lost their jobs, there was a reduction of more than 90,000 from the total number in employment in privatised Brazilian railways, and 15% of the total labour force in Nicaragua was made redundant as a result of privatisation there (Nellis, 2005). Chong and Lopez-de-Silanes (2002) also demonstrated that employee numbers are decreased in many firms before sale and that, globally, around 4 out of 5 studied firms reduce employees further after sale. Inevitably, this level of job losses, falling on individuals whose basic source of income is their wages, has to result in increased poverty and greater social inequality.

An additional claim is that private sector participation and privatisation increases the prices of basic goods and services; in particular sewage, water, transportation and electricity. There is no dispute that, under public ownership, many governments set utility prices at less than cost covering levels. The common result of this strategy is rationing, scarcity, poor investment and lack of expansion capital (Nellis, 2005). Thus, price increases are frequently unavoidable if the SOE is to expand to meet demand, modernise, and to operate with no subsidies.

Critics of privatisation of government services contend that problems sometimes arise in various aspects of the process, including the bidding process, the precise specification of the contract, and the monitoring and enforcement of the contract. For example, some observers have raised concerns that potential suppliers may initially offer a price to the government that is less than the actual production cost in order to induce the government to transfer the service to the private sector or to win the contract. In addition, the speed and size of price adjustments imposed subsequent to privatisation are often excessive and unjustified, and can be criticised as having a particularly harsh impact on low-income consumers. For instance, in the Cochabamba concession in Bolivia, water prices increased after privatisation by 43% on average, and nearly doubled for a small segment of poor consumers. As a result, there was a dramatic increase in inequality and an inequitable financial burden on the poor (McKenzie and Mookherjee, 2005). In the same regard, Galiani et al. (2005) has showed that water privatisation in Argentina has resulted not only in substantial productivity growth, but also in reduction in child mortality.

The privatisation process in Argentina failed to accomplish the primary economic benefits attributed to it. As Rodri'guez-Boetsc (2005) argues, this failure was a result of the high costs of using privatisation as a political signal. Improved efficiency, the central goal of privatisation from an economic perspective, was not attained in the economy at all. Although the extreme drop in labour among privatised firms had a temporary positive impact on productivity in all privatised enterprises, the benefits derived from higher productivity were not transferred to the workers by way of wage increases, and nor were they passed on to consumers as lower prices. Instead, the firms captured these gains in the form of monopoly rents.

In addition, the anticipated long-term improvement of fiscal accounts also failed to materialise. Current revenue was increased temporarily, thus reducing budget deficits during the early 1990s, but future budgets were compromised by the increasing indebtedness. In New Zealand, the government stopped their privatisation process for similar reasons (McTigue, 2003).

These issues are closely related to the public and government concerns surrounding the privatisation. The concerns include the debate as to whether a public or private sector will run a business more efficiently. Another typical concern is related to the foreign control over New Zealand as a result of privatisation, as well as the anxiety that privatisation (though it may improve the finances of the firm) may have a negative broader social impact, and that society will lose the ability to utilise the assets to achieve the government's social goals. In short, privatisation may result in an excessive emphasis on profit maximisation at the expense of other socially valuable objectives, which may negatively affect general social welfare.

3.3.2 Alternatives for privatisation

Privatisation comes in different forms and alternative delivery systems. Savas (2000) distinguishes between three broad forms of privatisation. Each different form of privatisation comes with its own distinctive methods as previously discussed in chapter 2.

The three forms of privatisation are generally recognised to be: delegation, divestment and displacement. The first general form of privatisation, *delegation,* is frequently referred to as "partial privatisation". In this case, the government continues to play an active role in the process, even after privatisation has been achieved. In the case of *divestment*, the SOE is typically sold or given away as an ongoing business. *Displacement* is the third form of privatisation which typically occurs when the government deregulates a public good.

The failure of certain attempts at privatisation and the discouraging results achieved in various privatisation experiments, especially in terms of infrastructure, led to many researchers asking the question; *why privatisation?*. Experience gained across many countries indicated that, due to its monopolistic nature, public infrastructure must be publicly regulated to be effective. The cost of making the necessary arrangements to achieve privatisation objectives was at a greater cost to the taxpayers than the resources generated from the sale of the companies, and did not introduce the "market disciplines" that were supposed to ensure future efficiency and effectiveness (Eatache,2001; Laffont,2005; Roland,2008). If there was any benefit gained from privatisation, it was to force some governments to create independent regulatory agencies to oversee an improvement in the industry's economic efficiency, lift its level of investment and ensure an improvement in the industry's environmental impact (Foster and Yapes, 2006). However, these objectives could have been achieved more quickly and at a lower cost without going through the privatisation process (Letza et al., 2004).

Experiences from the public sector in many countries, for example New Zealand and Australia, suggest that it is possible to achieve outcomes relating to client focus, efficiency, rationalisation, transparency and accountability without resorting to privatisation. State-owned utilities focused on housing, transport, and natural resources have identified the importance of focusing on the public nature of services, and service quality, rather than simply cost recovery and bottom-line aspects of public service provision (Letza et al., 2004). Moreover, these examples demonstrate the need to redefine the means by which "efficiency" is measured, especially when it comes to non-profit outcomes (Brown et al., 2000). Case after case demonstrates that developments in public service provision stem from innovative restructuring, and not from privatisation (e.g. Dewenter and Malatesta, 2001). Hence, rather than privatise, policy makers could improve the performance of the SOEs and develop programmes of change in public sector contexts, without going through the process of privatisation.

In this regard, as opined by Letza et al. (2004), the broad participation in decision-making in SOEs could possibly achieve the apparent objectives of privatisation. The workforce, not the management, has regular and frequent contact with their customers; a considerable source of direct "market research", which should inform and benefit decision-making. The benefits of employee involvement are recognised and entrenched in manufacturing and the private sector, and the potential for a similar outcome in the public sector is considerable (Appelbaum et al., 2000; Appelbaum and Berg, 2000). SOEs are, by nature, complex and large organisations which are hard to manage effectively. An atmosphere of openness and learning encourages the creative management of complex systems by allowing people to report error without the threat of legal or other sanctions. Primarily, this is about building an instinctive approach to continuous performance improvement. This type of environment encourages awareness and the ability to identify potential performance problems much earlier (Roland, 2008). In short, participation and empowerment of employees could possibly allow for effective organisation design for SOEs.

Focusing on "performance metrics" and in particular "economic efficiency" could potentially be a more practical solution and more effective than privatisation (Letza et al., 2004). The solution is to adopt "balanced scorecards" that portray together traditional and narrative performance indicators, giving significant perspectives on financial performance, business processes, customer service, and growth and learning; each aligned with the organisation's vision and mission.

Moreover, SOEs could be said to be more open to scrutiny, responsive to the needs of the public, the owners, and could at the same time be more accountable (Hall, 2003). Only this level of openness can ensure that the corruption and incompetence that sometimes used to characterise public management can be identified. Perhaps most crucially, SOEs, like privatised firms, require good regulation focused on process. Such a regulatory regime could additionally reinforce the requirement of openness. It is essential that effective regulation prevents excess public sector employment for political purposes, and the employment of politically connected people, rather than those best qualified (Akram, 2003)

Finally, privatisation has had mixed results in the developed and developing nations. Sometimes, it is not the solution conceived by its advocates. Rather, in many cases, it has demonstrably failed, and proven dangerous, especially when it comes to developing countries. Consequently, for the World Bank and the IMF to force it upon LDCs is questionable. As opined by Parker and Kirkpatrick, (2005), the objectives of privatisation policy in developing countries should extend beyond the concern for economic efficiency gains. Economic growth, poverty and distributional effects are important components in assessing the welfare impact of privatisation in LDCs.

In summary, bearing in mind these multiple goals for privatisation policy, and the contradictory evidence that is currently available, any declarations made about the overall impact of privatisation in LDCs must be treated with a considerable degree of caution. Sometimes it may simply be better to encourage public sector reform focused on wealth generation in its broadest sense, rather than enforcing privatisation without any guarantee of its success.

3.3.3 Applicability of privatisation assumptions

The efficiency of privatised firms is not only reliant on ownership, but also on proper incentives, scale of competition, and the effectiveness of regulatory policies. Thus, an improvement of firm performance requires much more than just the change in ownership which results from privatisation. It is also linked to organisational matters, institution-building and politics. Firm performance must be considered in the wider perspective of socio-economic factors and political reforms aimed at enhancing the general standard of living (Parker and Kirkpatrick, 2005). Numerous researchers indicate that the actual reality varies considerably from what is being asserted in most theories of privatisation (e.g. Van Brabant, 1995, Neu, 1991; Ghoneim, 2008). The key issue is that a broader range of factors have to be included in order to attain the required results. Additionally, existing theories do not fully clarify how organisational change processes actually happen. Below, a summary is provided which shows the main points of criticism with respect to privatisation theories on the micro and the macro levels.

As indicated by Parker and Kirkpatrick, (2005), privatisation theories on a micro level have highlighted the importance of both effective competition and regulation. They further state that: "*developing countries' markets may be underdeveloped and competition less than fully effective*" (p.530). The necessary competition policies and regulatory agencies required for the success of privatisation might not be found in LDCs which lack the administrative and institutional capacity as previously mentioned. The propositions of ownership with respect to production and efficiency depend to a large extent on the prevailing business environment. These environmental factors have a significantly greater effect on firm performance than ownership itself. Thus, apart from the change in ownership, these factors, including regulation and competition, must be taken into account when assessing the privatisation process in LDCs (Van Brabant, 1995; Ghoneim, 2008). Unfortunately, very few developing countries have effectively operating competition laws to help control monopolies and restrictive practices, and many have not developed regulatory agencies to tackle abuse in some sectors following privatisation. Even if they exist, state regulatory bodies in developing countries might be captivated and motivated by specific interests (Kirkpatrick, Parker, and Zhang, 2006).

Moreover, existing microeconomic theories have not fully clarified how organisational change processes resulting from the agency theory have really occurred with regard to LDCs. The argument is that the principal-agent relationship might be practical in small firms. However, in the big limited liability corporations, property rights are diluted. Diluted ownership diminishes the control of owners over managers. As a result, managers have a substantial amount of freedom to reverse their own interests (Ghoneim, 2008; Commander and Killick, 1988).

Furthermore, critics indicate that the empirical validity of the propositions on which the agency theory is founded is dubious. Full information is impossible to attain in reality and, therefore, information dispensation is extremely complex. Besides this, internal conflicts weaken communication between organisational members. In LDCs, the competitive markets are still inadequately organised, and the economic relationships are to a considerable extent more multifaceted than is exposed by the agency theory. It is hard to model LDC markets through this theory. For instance, the issue of trust is not addressed (Neu, 1991; Armstrong, 1991). Further, the relationship between the outputs in terms of profitability and the manager's efforts is more difficult to establish than is propounded by this theory.

Inadequately defined property rights, deficient protection against expropriation and theft, and breach of contract, are all factors which might diminish efficiency (Bocko, Shleifer and Vishny, 1995). Barzel (1989) indicates that property rights are certainly not entirely accounted for by the law, and cases of free-riding, expropriation, and eluding the law is quite common. The property rights theory rules out the importance of key aspects, for example, centralisation, size, hierarchy, and leadership. Hence, it does not identify the relationship between firm performance and the exchange of information or any uncertainty about company objectives.

In LDCs, private property rights lack protection, making expropriation of private investment a permanent risk (Parker and Kirkpatrick, 2005). Even where property rights are protected and competitive capital markets are evolving, politicians may retain authoritative planning and state control alongside private ownership (Murtha and Lenway, 1994). Thus, the actual results of privatisation might be different to those expected on a micro level.

Some strong theoretical suppositions were presented in chapter 2, which argue that privatisation should improve firm performance, through enhancing allocative efficiency on a macro level. There are numerous researchers who criticise the applicability of these assumptions, especially when it comes to LDCs (e.g. Bayliss, 2000, McKenzie and Mookherjee, 2005). A key point is that allocative efficiency also applies to public enterprises. Deregulation, liberalisation and competition are an imperative backdrop for the success of privatisation programmes, but they are not necessarily to be found in LDCs (Jackson and Palmer, 1988; Naguib, 2010). Besides which, the fiscal impacts of privatisation are often overestimated, particularly the decrease in budget deficits through the exclusion of financial subsidies (Leopoldo, 2005). Subsidies are a consequence of budget procedures (Ramaswamy, 1988), and they might persist following privatisation, such as in the case of price support for farmers.

In the long run, this policy might encompass unfavourable fiscal propositions when governments lose revenue from advantageous enterprises, maintaining unsalable loss-making enterprises. In addition to this, proceeds gained from sales may be not as high as expected. Several enterprises have considerable debts and these are counterbalanced against payments, with the payments themselves often being made in delayed increments. The practice of privatisation itself places demands on institutional resources which can be costly. Whilst resources are frequently funded by donors, there is an opportunity cost to this funding which might be better allocated to help attain the core purpose of poverty eradication directly (Bayliss, 2000).

In summary, the common observation of critics is that privatisation is not the answer to public sector problems. Opponents have pointed to the weak theoretical basis of the privatisation policy in general (Vicker and Yarrow, 1988). In particular, further problems appear when the policy is applied to LDCs. Weak capital markets and low domestic savings prevent the domestic private sector from participating, consequently increasing dependence on foreign investment. Besides this, the competitive environment is less effective, due to monopolistic market structures and the frequent practice of holding interlocking directorships (Adam et al., 1992). Wortzel and Wortzel (1989) indicate that SOEs do not actually perform so poorly, and there are many public enterprises which do in fact perform successfully, such as those in Korea and Brazil. There are researchers who suppose that the success of an enterprise depends more on superior management than on ownership itself. Imperative measures in this respect are generating an inspiring organisational culture (Schwartz and Davis, 1981), designing valuable control systems (Simons, 2000), appointing talented managers (Vernon, 1984), and creating attractive incentive schemes (Omran, 2009). These factors are essential in achieving better firm performance.

Given the various different theoretical arguments made in relation to privatisation, researchers have had to turn inevitably to the evidence on the ground in order to arrive at their conclusions. However, the empirical evidence available on changes in ownership and performance, contrary to impressions that might have been created by the advocates of such a policy, is by no means unambiguous, least of all where LDCs are concerned. The next section focuses on this issue.

3.4 Empirical evidence gathered from privatisation studies

Since the 1980s, privatisation has been the most prominent approach taken to achieve international market reform. Generally, privatisation is coupled with economic liberalisation, free competition, and free trade, along with restricted government intervention. Despite the fact that privatisation was pioneered decades ago, there is still a limited amount of published work which explores the performance of privatised enterprises, as highlighted by Adam et al., (1992). After two decades, researchers have only just begun to properly explore the outcome and effects of privatisation programmes (Cook and Kirkpatrick, 1995; Parker and Kirkpatrick, 2005; Megginson and Netter, 2001, Boubakri et al., 2008).

However, the resulting findings are somewhat inconsistent and ambiguous. Comparative studies were, for instance, conducted by Weiss (1995) to evaluate the performance of SOEs and private enterprises, as well as by Karatas (1995) to evaluate the performance of enterprises throughout the pre-privatisation and the post-privatisation periods. Unfortunately, these studies do not provide any conclusive and in-depth data. Besides, the empirical evidence offered in the literature does not effectively investigate the nature of internal changes occurring inside firms after the privatisation process (Wickramasinghe, 1996, D'Souza et al., 2007). Prior to presenting the findings which resulted from the available research conducted primarily in LDCs, a general outline of privatisation studies are presented, concerning privatisation studies in both developed and developing countries.

3.4.1 Studies concerning privatisation in developed countries

The empirical evidence regarding the impact of privatisation on firm performance in developed countries is inconclusive (Jones, 1992; Espeland and Hirsch, 1990; Wright et al., 1993; Ogden, 1994). Wright et al. (1993) found that privatisation via a management buy-out created better financial control systems, employment contracts and negotiating machinery, and decreased investment constraints on subsidiaries in the UK. Bishop and Kay (1988) evaluated the performance of a number of privatised enterprises against the performance of non privatised enterprises in the rail, coal, postal, and steel sectors in the U.K, looking at revenue, profits, employment, profit margins and productivity. They found an improvement in firm performance in both sets of enterprises. They concluded that the threat of divestiture and the business cycle could explain the improvements in performance, rather than the change of ownership itself. While Ogden (1994) demonstrated that accounting controls generated customers and markets for privatised UK Water companies and changed political objectives into objectives which were more focused on organisational performance.

In contrast, Shaoul (1997) also examined water privatisation in the UK. In this study, the government's claims about the benefits of privatisation were questioned, and the distribution of wealth and power were revealed. This study further demonstrated that in contrast to the government's predictions, no increase in efficiency was actually achieved, with some workers in fact losing their jobs. Furthermore, consumer prices increased, and the infrastructure worsened.

Arnold and Cooper (1999) indicated that the UK government achieved a mere £13.1million for the sale of a port via auction, which was then resold 18 months later for £103.7million. Those who gained the most from these transactions were the banks that financed the buy-out, and the managing directors.

Foreman-Peck and Manning (1998) evaluated the performance, by means of total factor productivity, of British Telecom after it was privatised, against that of 5 telecommunications firms elsewhere in Europe and came up with vague results. They stated that the privately-owned BT was actually less efficient than its counterpart in Denmark where ownership was mixed, and in Norway where the company was state-owned, but more efficient than those in Italy and Spain where the ownership was mixed.

3.4.2 Studies concerning privatisation in developing countries

The results of empirical research into the effects of privatisation in LDCs are also inconclusive (Wolf, 2008). Some studies show that the profitability of SOEs is lower than that of their private sector counterparts (Dawley and Haidar, 2008; Omran, 2005). Other studies, however, show that the efficiency levels SOEs are actually better than those of private sector enterprises (Wortzel and Wortzel, 1989; D'Souza et al., 2005). Potts undertook research into production efficiency in Tanzania in 1995. He stated that management of organisations improved after privatisation in some companies, whereas in others it declined. Moreover, he indicated that, apart from various macro-economic gains, one apparent shortcoming of the privatisation process was the shift of ownership to foreign-based enterprises.

Using market structure, size, industry trends and ownership as indicators to explore potential adjustments in performance, Weiss (1995) found no significant evidence for the supposition that SOEs performed less well than private enterprises. Furthermore, he found no evidence that privatisation actually increased firm performance. Even though theorists advocate that privatisation leads to the development of MCS practices and an improved firm performance, researchers are commonly unable to demonstrate practical evidence to support this supposition. The accessible evidence does not conclusively prove that there are clear improvements in the performance of enterprises as a result of privatisation.

In Sri Lanka, Wickramasinghe (1996) found that privatisation did not lead to higher levels of profitability and productivity. A study by Uddin and Hopper (2003), performed on thirteen privatised enterprises, indicated that returns did not increase after privatisation. In fact, states revenues and employment actually decreased. In addition, transparency in external reports was not attained, and some creditors, shareholders and tax collecting institutions were affected by unfair transactions. Wickramasinghe and Hopper (2005) argue that Western MCS techniques are not appropriate to Sri Lanka's local culture. This finding is also confirmed by Perera (1989), who concludes that accounting practices in their current structure are not suitable for application to LDCs due to the differences in business environments, use of accounting information, ownership structures and attitudes towards disclosure practices, which stem from the colonial period. Hence, some degree of reservation regarding the suppositions of the advocates of privatisation is justified (Burchell et al., 1980).

It can be concluded that the adoption of Western MCS techniques by LDCs may lead to problems as a consequence of the different socioeconomic, political and cultural conditions (Wickramasinghe, 1996; Hopper et al., 2004b). Matters such as cultural differences (Velayutham and Perera, 1996) and ethnic conflicts (Tsamenyi, 2010) play a central role in the improvement or otherwise of MCS. On the other hand, in some countries, such as China (Chan and Lee, 1997: cited in Hopper et al., 2004b) and Syria (Abdeen, 1980), it can be seen that Western MCS techniques can occasionally be applied successfully.

Hopper et al. (2004a) indicated that the introduction of computerised systems in privatised enterprises enhanced the linkage between production and market information. However, in LDCs, the transparency of the information flows is still inadequate because of weak regulations and insufficient enforcement of those regulations. As previously discussed, case studies conducted in Bangladesh and Sri Lanka show that MCS practices are being hindered by the inexperience of top level management and owners. It can be argued that external factors, for instance the state and aid agencies (Hoque and Hopper, 1994), play a crucial role in determining the nature of MCS practices. These must be assessed alongside other external factors, for example, political stability, competition, industrial relations and government regulations, which can all impact on the development of MCS and firm performance.

In Bangladesh, annual reports were not completed, and the owners of the studied firms were solely responsible for the company's finances. Budgeting policies were accomplished from the top down, and the labour force was subjected to poor conditions, with scant union protection. Within Sri Lanka, subsequent to privatisation, textile mill managers worked to keep budgets small in order to preserve ethnic divisions and to protect the local workers (Hopper et al., 2004a). Moreover, Perera (1975) indicates that Sri Lankan enterprises were more concerned with the preparation of tax returns than with the formulation of accounting reports. In general, a lack of accountability and transparency was largely caused by factors such as accounting regulations which were not carried out properly, weak capital markets, and traditions of tax avoidance, in addition to unsuitable education in the field of accounting.

The work of Al-Rohaily (1992) on the MCS in twenty five prominent Saudi firms indicates that MCS techniques are frequently poorly applied to planning and control activities and, in some cases, they are not used at all. They found that this was because of inefficient costing systems, a lack of internal control, and a lack of accounting staffs. Moustafa (1985) asserts that, with reference to external and internal requirements, the transfer of accounting information in relation to Saudi enterprises is incomplete. This is primarily because their MCSs are not coherent - there are no appropriate procedures or forms and records, and internal control methods are insufficient or sometimes non-existent. Al-Namri (1993) examined the differences and similarities between the MCS practices of Saudi managed enterprises and those of Western joint ventures working in the kingdom. Al-Namri indicates that MCS techniques applied by joint venture enterprises are usually more complex than those applied by Saudi-owned enterprises.

D'Souza et al. (2007) confirm the importance of restructuring employment levels and financial leverage in terms of firm performance. They further claim that changes in firm or industry specific regulations, including liberalisation and increased competitive pressures, are among the most influential determinants of firm performance. D'Souza and Megginson (1999) observe greater improvements in non-competitive industries, such as utilities and telecoms, than in competitive industries, such as manufacturing, after privatisation occurring. Bortolotti et al. (2002) indicated that a combination of regulatory and ownership changes, rather than ownership changes alone, accounted for a significant proportion of the observed improvement in performance. Dawley and Haidar (2008) investigated the impact of privatisation on firm performance in SOEs in the MENA region. By means of a multi-case study approach, and using both quantitative and qualitative data, they concluded that privatising SOEs could be beneficial in the MENA region, but that privatisation must coincide with strong government reform policies, and the existence of certain financial and managerial strategies, for example, MCS.

Boubakri, Jean, and Omrane (2008) examined the impact of new ownership upon privatised firms in terms of efficiency and performance, focusing on its impact on corporate performance and governance over the period 1988-2005. During that period, they conducted a comprehensive study on privatisation in 77 developing countries classified into 5 geographical areas (East Asia and Pacific, Latin America and Caribbean, North Africa & Middle East, South Asia, and Sub-Saharna Africa). As a result of their study, they opined that:

(i) in order to ensure positive outcomes, privatising governments should implement economic reforms before privatisation;
(ii) there is need for a sound institutional environment; with better investor protection to promote capital markets and attract foreign investors;
(iii) post-privatisation ownership concentration is associated with poor investor protection;
(iv) concentrated private ownership is more likely to emerge in countries with low investor protection;
(v) post-privatisation ownership concentration is associated with poor investor protection.

D'Souza et al. (2005) and Boubakri et al. (2005c) illustrated that the determinants of post-privatisation performance changes are different across developing and developed countries, with the institutional infrastructure being more significant in LDCs. In fact, the institutional framework is underdeveloped and weaker in developing countries, providing limited judicial efficiency and investor protection. In addition, the widespread corruption and lack of law enforcement do not help to enhance confidence in societies and to attract potential local and foreign investors. They surmise that a related primary subject that is worth investigating in future is whether privatisation has had an impact on aspects of the institutional environment such as effective corporate governance, corruption, shareholders' protection and transparency. In summary, the country level of institutional development is an inherent aspect of privatisation outcome.

Omran (2009) examined and analysed the post-privatisation corporate governance of a sample of 52 newly privatised Egyptian firms over a period of 10 years, between 1995 and 2005. He found that the state gives up some control over time to the private sector, but that it still controls, on average, more than 35% of these firms. The study also documented a trend in private ownership concentration over time, mostly to the benefit of foreign investors. These findings are also supported by Fan and Wong (2007) who indicated that almost 28% of the CEOs in a sample of 625 newly partially privatised firms in China were ex- or current government bureaucrats.

Both issues of residual state ownership and CEOs government bureaucrats are proven to have a negative impact on firm performance in both studies. As such, in conclusion, states in LDCs are strongly advised to relinquish control and allow for changes in the board of directors following privatisation, as changing ownership and privatisation may well not have a positive impact on firm performance unless it is coupled with a new management style.

The studies of Wickramasinghe (1996), Ogden (1994), and Uddin (1997) tackled privatisation issues from a socio-political perspective. The study of Wickramasinghe is an evaluation of privatisation in the context of LDCs. Its basis is the Mode of Production (MOP) theory, which is applied to evaluate MCS practices within both capitalist and non-capitalist settings. Wickramasinghe indicates that in non-capitalist situations, the nature of MCS is influenced by country policies and vain bureaucratic rules. Subsequent to the process of ownership change, accounting practices were adapted, and were no longer focused on non-capitalist elements. In LDCs, cultural beliefs still have a significant effect on privatised businesses and on MCS and accounting practices in particular. The economic theorists have not taken this into account. Wickramasinghe (1996) emphasised this particular constraint in his study on MCS changes in a privatised Sri Lankan Textile mill. In Sri Lanka, culture and tradition are still considerably entrenched in society, and post-colonial politics still play a central role in the corporate world. Wickramasinghe further argued that researchers and policy-makers had not shown enough awareness of cultural values and the labour mentality in LDCs.

It can be concluded that, with the exception of Wickramasinghe (1996) and Uddin (1997), current studies fail to adequately tackle the issue of privatisation from the perspective of LDCs. Even though the studies of Armstrong (1991) and Ogden (1993) offer more insight in terms of ownership change and MCS in developing countries, remarkably little is said about the need for the modification of MCS in these countries in order to improve firm performance, specifically as a result of privatisation. Studies on ownership changes demonstrate that privatisation alone does not guarantee an improvement in firm performance. Other relevant factors such as regulations, effective competition, and organisational or political changes must be considered in addition (Megginson and Netter, 2001; Parker and Kirkpatrick, 2005). Research conducted in particular industrial sectors and firms illustrates that even though privatisation does normally have a positive impact on productivity, production efficiency, prices and service delivery, it is not by itself sufficient to improve firm performance (Parker and Kirkpatrick, 2005).

There are obviously well defined reasons why privatisation might not yield the same results in LDCs as would be expected from the theory. It is by now well recognised that, broadly speaking, two conditions must be satisfied in order to achieve successful privatisation. The first condition is the existence of strong macro-economic surroundings and effective institutional and strong industry regulatory capacity. The second condition is the existence of competitive enterprises in those sectors in which privatisation is considered. In LDCs, neither of these conditions is guaranteed to be sufficiently met. In addition, there are other unfavourable factors at play, such as the weak role of the government, poor trade unions, cultural barriers, and a deficiency of mechanisms to encourage private sector performance, such as monitoring by institutional shareholders. Under these conditions, private-owned companies cannot be expected to produce a better performance. Most of the existing studies regarding privatisation in LDCs point to one or another of these external factors to explain why privatisation has not quite produced the expected results in those countries.

The arguments set out above indicate that, in the case of LDCs, achieving the objectives of privatisation and enhancing MCS practices and firm performance is complicated by a variety of external contextual factors. These relevant factors are considered in the next section.

3.5 External contextual factors

Privatisation is often alleged to be part of a large-scale process of change, which takes place both in terms of the internal and external environments. Based on the institutional theory[1], privatisation can be seen as the shift from one institutional template to another, and as a coercive institutional change which exerts an extensive contextual pressure on firms (Johnson et al. 2000). These pressures are exerted by the introduction of new technical and managerial resources, and by the legislation and regulations resulting from privatisation (Hassan, 2005).

Consequently, a firm's behaviour and structure are affected by the new role of the government and by industry regulation (DiMaggio and Powell 1983). In this regard, Scott (1991) argues that new organisational structures emerge when firms go through an adaptation process in terms of their policies and practices. As a result, after undertaking the external adaptation process resulting from privatisation, existing internal organisational elements are discarded, and new organisational elements take their place after privatisation (Hinings and Greenwood 1988).

This type of change process implies behavioural changes in individual employees, and is likely to be accompanied by resistance stemming from the heightened perceptions of uncertainty that naturally coexist with extensive organisational change (Nelson et al., 1995), and also from shifts in power within the organisation. Political behaviours are therefore likely to be encountered, particularly on the part of some managers who fear losing their positions of influence within the organisation. In a crisis situation, however, resistance to change is less likely to occur, even though high individual costs are likely to be involved. The status shift from public to private ownership and the corresponding drastic changes in the external environment to which the organisation must adapt are likely to produce a sense of organisational crisis. Even when privatisation-induced

[1] Institutional theory is "*a way of thinking about formal organisation structures*" (Dillard et al. 2004 p.508). It is built on the belief that institutional environments are socially constructed (DiMaggio and Powell 1983; Carruthers 1995). It is the looking to the organisation as an open system, which means that the external environment and its participations play crucial roles in shaping firm performance. In this regard, Scott (1998) indicated that "Every *organisation exists in a specific physical, technological, cultural and social environment to which it must adapt. No organisation is self-sufficient; all depend for survival on types of relations they establish with larger systems of which they are a part*" (p.12).

change is accepted by a significant majority of the stakeholders in the company, the uncertainty that is created in the short term by the restructuring is likely to result in an increase in occupational stress for individual employees.

It can be seen that introducing privatisation in LDCs is a very complicated process. In order to make implementation possible and effective, several external contextual factors must be considered (Neimark and Tinker, 1986). The changes in MCS and firm performance resulting from privatisation are influenced by social, historical and political factors, and the macro economic conditions of the country in which the organisations are embedded (Hoque and Alam, 1999; Broadbent, 1999). Therefore, in order to understand and evaluate changes in MCS and firm performance in LDCs resulting from privatisation, such contextual factors must be taken into account (Luft, 1997; Scapens and Roberts, 1993). These factors are discussed in relation to the concept of "*market capitalism*"[2] as indicated by Hopper *et al.* (2004a), given that privatisation theories are founded on this concept.

The concept of market capitalism fits well with the new institutional transformation of the Egyptian economic policy. The GOE understood the need for market capitalism which required a clear and effective public commitment to transform its economy into a free market economy. The rationale behind the policy was that only a free market economy could achieve an equitable distribution of income, faster growth, and a more efficient use of resources (Kenawy, 2009). The external contextual factors that influence the MCS practices and firm performance of privatised firms include culture, the role of the government, industry regulations, market competition, economic conditions, trade unions, and aid agencies. These factors are individually discussed in the sub-sections below.

3.5.1 Culture

Organisational culture can be defined as the emergent pattern of beliefs, behaviours and interactions that uniquely characterise the organisation as it operates within an industrial

[2] Market capitalism builds on the assumption that market forces such as supply and demand are the best determinants of what is right for a nation's well-being. These economies rarely engage in government interventions such as price fixing, license quotas, and industry subsidisation. Although most developed nations today have mixed economies, they are referred to as market capitalism economies because they allow market forces to drive most of their activities, with government intervening only to provide stability. en.wikipedia.org/wiki/Market_capitalism (accessed on 15 June, 2010)

and a societal context (Fombnin, 1984). In correspondence with the anthropological view that a society's prevailing culture dictates what people learn and how they are to behave (Luthans, 1988), so an organisation's culture dictates what people have to know and the way that things are done. In other words, the culture of an organisation is a set of important beliefs, values and understandings that all members of the organisation share in common (Kast and Rosenzweig, 1985). Core values about how to treat employees, customers, suppliers and others, are thought to lead to sustained superior financial performance in organisations within cultures that support the fundamental key areas necessary for competitive advantage (Barney, 1986; Stace, 1996; Trahant and Burke, 1996).

Gagliardi (1986) states that when an organisation is faced with change, and the potential for action has been explored and found unsuitable for solving problems, the 'virtuous circle' which is responsible for maintaining an organisational culture may become unproductive and a 'vicious cycle' may emerge. The ‘vicious cycle’ refers to the organisation's natural instinct to resist change. Lack of success is blamed on uncontrollable external causes or the behaviour of certain individuals or groups within the organisation. The organisation must therefore change its cultural identity in order to survive in the new external environment (Hope, 1990; Schein, 1984).

With regard to the implementation of the privatisation programme in LDCs, no attention has so far been paid to cultural issues (Hopper et al, 2004). It was believed that modern capitalist attitudes, beliefs and customs either already existed or would arise spontaneously during the process of privatisation. The workforce was expected to adopt modern MCS practices, the practice of labour contracts, and the system of economic rewards.

The general assumption is that, by introducing new organisational structures and Western technologies, the workforce will instantly conform to the sort of individual responsibility and economic individualism associated with capitalism. Moreover, they are expected to be familiar with market capitalistic concepts, for instance continuous improvement and quality consciousness. In addition, social homogeneity will become dominant in the workplace, meaning that differences between racial and ethnic groups will become irrelevant, as a result of the Western economic reward systems. Besides this, performance measures, budget and compensation instruments are all expected to help managers achieve their goals (Hopper *et al.*, 2004a).

3.5.2 Role of the government

Many argue that the increase in market-mediated exchanges on a global scale is associated by a decrease in the sovereignty of individual states, particularly in LDCs (Robinson 2001; Gilpin 2001). Governments in these countries face increasing pressures, generally thought to be the result of global competitiveness, environmental, and social regulations (Gilpin, 2001).

Therefore, SAPs have been the main tool that *'neo-liberalism'* advocates have used to force developing countries to do away with their boundaries in relation to foreign investments and to decrease the economic role of the state. The essential aim of these new policies when introduced was to decrease the involvement of the state in the economy, particularly in relation to financial activities and production. The structural adjustment programmes of the IMF and the World Bank are focused on the market capitalism principle, a neo-classical approach aimed at enhancing competition, free trade, and limiting government intervention. Government involvement must be restricted and clear and stable regulations must be introduced. The government must operate at an equal distance from all operators in the sector, including SOEs (Shehadi, 2002). On 17 May 1991, the GOE implemented structural adjustment and privatisation programs which resulted in extensive economic and social changes. These policies displaced the economic and political policies of the former socialist regime under Nasser (1952-1970). The GOE is considered to have played a coercive role in these transformation processes.

Hopper *et al.* (2004a) indicated that governments have a significant influence on the development of MCS in LDCs. The state is the main supplier of capital and employment, and controls a large proportion of the GDP. Although governments are leading the modernisation process in LDCs, they are restricted by non-capitalist cultural principles, for instance, political interference and non transparent practices. Thus, in the case of LDCs, the privatisation regulations used in SOEs might become instruments of power applied for non-capitalist and illegal purposes. MCS is not immune from these aforementioned factors. Consequently, the function of MCS systems such as planning, control and decision-making processes might be compromised.

The implementation of privatisation within structural adjustment programmes has opened the door to the possibility of counteracting political interference in the management of enterprises. The government need to distance privatised utility industries from political control, to provide market credibility and to separate ownership and regulatory functions. This has often led to the appointment of regulators who meet their responsibilities independently of government. Based on the capitalistic ideology, the role of governments should remain confined to supply-side economics, maintaining order and law, safeguarding infrastructures and correcting market distortions (Corden, 1974).

However, in contrast, the role of the government in LDCs is generally detrimental (Campbell, 1993), as its intervention creates market inefficiency and enormous price distortions. The state's economic power is considerably greater in LDC countries (Wickramasinghe, 1996). In order to achieve a suitable external environment for the privatisation concept in LDCs, the government's intervention must thus be limited.

Although private ownership would introduce more effective controls of the capital market, in order to cover the deficiencies of the state-governed economy, the concept of capitalism has no historical basis in LDCs. Thus, these countries may respond differently to the sudden implementation of privatisation programmes (Hopper *et al.*, 2004a). In addition, government policies usually still play a part even after the privatisation of SOEs in LDCs. These factors continue to influence the business strategies adopted by private enterprises (Macias, 2002), and might hinder the effectiveness of the capitalist mode of production, for instance in terms of MCS. A country's institutional and political situation affects its economic performance (De Haan and Simermann, 1996) and has a significant impact on private investment and property rights (Feng, 2001). In the case of LDCs, the role of the government might hinder post privatisation regulations.

In conclusion, it can be seen that effective privatisation requires an enabling external environment in terms of the role played by the government. Existing rules and regulations pertaining to private business can either increase or decrease the amount investors are willing to pay for an SOE. Governments should be aware of the legal obstacles to a smooth privatisation and should adjust the legal environment in order to defuse any legal action that may cause damage to the process. Governments should ensure that the commercial, financial, capital markets, and labour legislation, all work together to provide a proper environment for privatisation. In addition, the evolution of a suitable competition law prior to privatisation will help to avoid many problems down the road.

3.5.3 Market competition

The theory of the impact of competition on operational efficiency originated with Hayek (1945) and Leibenstein (1966) and falls into two related categories: incentives and information effects. Competition in product markets produces incentive effects by threatening the managers of unproductive firms with a potentially reduced market share. Incentive effects are further explored by Winter (1971), who models competition as a natural selection process that prods initially inefficient firms into becoming more efficient. Building on these insights, theories based on information effects argue that competition provides information about cost and manager's efforts to owners who would otherwise be in the dark. By means of obtaining this information, owners can better evaluate managers' efforts, and can thus design incentive systems more accurately (Lin, Cai and Li, 1998).

Kay and Thompson (1986) and Vickers and Yarrow (1991) have argued that market competition is more important in encouraging firm performance than ownership. If an SOE buys inputs at market prices, sells its output in a competitive environment and has a hard budget constraint, then it must be as efficient as a private firm. If these conditions do not apply, then reforms to improve the external environment will not help to improve firm performance (Yeaple and Moskowitz, 1995). In this regard, Shirley and Walsh (2001) indicated that the extent to which competition influences firm performance has important implications for reform. If the introduction of competition is sufficient to equalise public and private performance, then there is little need to consider the nature of ownership as a relevant factor.

Given the hostile nature of a truly competitive environment, sophisticated accounting instruments and formal controls are crucial (Otley, 1978; Khandwalla, 1972. Competition stimulates the initiative to change MCS, since an insight into costs and performance levels is the key to economic survival (Yakou and Dorweiler, 1995). In this regard, Chenhall and Langfield-Smith (1998) indicated that increasing global competition and the dynamic nature of the business environment require MCS techniques to be adapted and re-adapted on a frequent basis. The environmental uncertainty caused by competition is linked to a strong emphasis on budgetary control, accounting, production, statistical control and a reliance on formal control (Otley, 1978; Imoisili, 1985; Khandwalla, 1972).

However, in some cases, environmental uncertainty is not related to a strong budgetary control, but rather to a combination of strict budgetary control and a more flexible approach, as found in some studies (Brownell, 1985). In this regard, Ezzamel (1990) indicated that in other cases of environmental uncertainty, budgetary information is used for the purpose of evaluation by means of variance analysis methods and superior-subordinate collaboration. In addition, Merchant (1990) argued that the pressure to meet financial objectives is related to environmental uncertainty caused by competition, while Chenhall (2003) observed that turbulent and hostile conditions require a formal budgetary control system.

In conclusion, privatisation may expose the firm to the discipline of product market competition. Having to compete with other firms for customers and market share might provide the incentive which is required to stimulate the improvement of firm performance and MCS.

3.5.4 Industry regulations

Industry regulation is problematic in developing countries. Firstly, the process is institutionally challenging in an environment where proper skills are scarce. Secondly, markets are smaller and thus less competitive, consequently requiring more effective regulation (Bayliss, 2001). Grout (1995) asserted that, in a regulated industry, almost all regulated prices would be affected, thus the determination of a reduction in the operating costs is obviously difficult. Rees and Vickers (1995) describe the main aims of the regulator as trying to model the company's business in order to recognise opportunities for cost reductions.

For firms to be privatised and still have a natural monopoly in their industry requires the establishment of a regulatory framework to provide incentives to companies to sustain efficiency and to protect customers from monopoly abuse (Evaristo 1998; Ogden and Anderson 1999). Industry regulation of privatised firms is necessary to avoid abuse of monopoly power (Conrad, 2005). Broadly speaking, the aim of industry regulations is to introduce a framework of regulation which is explicit and transparent in nature and which operates via incentives to managers of the business, rather than via the complex administrative arrangements practiced during public ownership. Where competition is likely to take some time to develop, the regulator's role should be to protect consumers from abuse of monopoly power. This requires controls over both the quality and price of output. In addition, regulators are also responsible for promoting competition, social and national objectives (Gibbon, 2000).

Despite the usefulness of regulation, much of the literature treats regulation as a necessary evil. Laffont and Tirole (1993) see regulators as dependent on the regulated for information, and consequently as being prone to 'capture' by those they seek to regulate. In other cases, they may impose arbitrary rules that distort incentives for management and limit the returns to owners from monitoring management. Given the efficiency losses caused by a lack of competition and the additional distortions caused by industry regulations, this course of action can become highly politicised unless delegated to independent arbitrators acting in the public interest.

3.5.5 Economic conditions

The key factor for governments of LDCs which leads to the commencement of the process of privatisation is an aim to achieve obtain better economic conditions. The rationale is to enhance budget deficit and promote economic efficiency, while simultaneously maintaining the level of employment and reducing government involvement in the management of enterprises. Other objectives include the transfer of ownership to the private sector, introducing competition through economic liberalisation, revealing public enterprises to market discipline, developing capital markets and attracting foreign and domestic investors (Megginson *et al.*, 1994). By achieving these objectives, government revenues otherwise spent on subsidies will be saved, and social and political stability will be achieved through a more balanced allocation of resources. In addition, there will be greater economic growth, and new opportunities will be created with respect to employment. The general expectation is an increase in Gross Domestic Product (GDP), increasing investment levels, a supply of quality goods and services at lower prices, a rise in the use of modern technology, higher profits and dividends, additional employment opportunities and privileged salaries, a reduction in risk, effective corporate governance, financial benefits and diminishing taxation levels (Makalu, 1999). In addition, other objectives of LDCs are to achieve maximum output from scarce resources and to reduce poverty.

However, the prevailing unstable economic conditions and the way in which they influence economic growth in LDCs is one of the major issues which impacts on the privatisation process. It is argued that policy makers behave in accordance with their own ideological and political objectives when developing policies of expenditure, taxation and monetary expansion (Edwards, 1994). This implies that policy making is an endogenous variable that depends on a country's political, economic and institutional circumstances. If the economic condition is unstable, the outcome will be increased inflation and diminished economic growth. Inflation encourages firms to increase their debts and inventories and hinders long term planning. Thus, economic instability affects institutional self-government and increases the problem of commitment.

3.5.6 Trade Unions (TUs)

TUs are considered to be the collective labour force on the basis of regulations and rules. The trade union's role is that of a protector of the rights of individual workers, as well as the monitor of law enforcement with respect to misconduct in the area of contractual obligations (Hopper *et al.*, 2004a). TUs mediate shop floor conflicts through negotiation in a collective bargaining framework. The aim is to achieve the common goals of both the companies and the union in terms of entrepreneurial survival and growth. In LDCs, the political power of TUs is substantial, both at a national and local level (Hopper *et al.*, 2004a). In terms of the global view, TUs are the strongest opponents to privatisation, because they receive substantial benefits from public enterprises in exchange for political support (Lopez-de-Silanes 1997).

In the context of market capitalism, TUs are expected to collaborate with the privatised enterprises within a collective bargaining work structure. Their role is that of mediator between the management and shop floor workforce (Tsamenyi and Hopper, 2003). Biases and links to political parties should ideally be abolished. Labour markets should be based on the fair reward principle in order to stimulate the mobility of workers. In addition, recruitment must be based on employee qualifications and training. Thus, the TUs should establish education and training institutions at a high standard, while focussing on the development of worker skills, and the promotion of social values which are consistent with a free market economy.

In short, in capitalist societies, the economy is dominated by effective labour market functions. However, many LDCs have a weak labour market tradition and, therefore, the legal status of employees may be vulnerable.

3.5.7 Aid agencies

Many LDCs suffers from economic problems, for instance, poverty, budget deficit of the state, poor governance, natural disasters, and weak domestic markets. Consequently, the economies of LDCs are heavily dependent on grants and loans from international aid agencies, international financial institutions and foreign governments (such as the IMF and the World Bank). As a result, those institutions are considered to be powerful actors in the promotion of the privatisation policy, especially in developing countries. This dependency has resulted in the transfer of Western accounting terminologies to these countries.

The IMF and the World Bank forced LDCs to adopt a neo-classical economic development. These institutions expected LDCs to follow their advice in relation to policy restructuring and to adopt their social and economic structures. As a result of concerns of the IMF and the World Bank's in relation to repayment of their external debts, LDCs are particularly pressurised into restructuring their economies (World Bank, 1981; IMF, 1986). LDCs cannot access additional loans unless they privatise their inefficient public enterprises (Nellis and Kekiri, 1989). Furthermore, through bilateral exhortation and their dominant influence on lending policies, external agencies again increase pressure on LDCs to privatise their SOEs and liberalise their economies (Moseley, 1988).

As indicated by Hopper *et al.*, (2004a), the World Bank and the IMF should focus on improving financial accountability and transparency in LDCs, and ensure their immunity from market disciplines and the scrutiny of legal institutions. World Bank reports (1995, 1997) and the IMF highlighted the importance of creating an "e*nabling environment*" in LDCs could promote efficiency in SOEs. This includes supporting LDCs in liberalising domestic and foreign trade, balanced government budgets, relaxing price controls, a system of financial reporting and a legal framework and accountability to encourage the functioning of a capitalistic market economy.

External Contextual factors	Expected proposition for better firm performance and MCS
Culture	-Modern capitalist attitudes, beliefs, and customs either exist already or will develop. -Employees will positively respond to labour contracts, economic rewards, and modern MCS. -Social homogeneity in the workplace environment. -A meritocracy based system -The traditional culture will be replaced by a new work mentality: quality consciousness and a focus on continuous improvement.
Role of the government	-Effective privatisation regulation (Political commitment and transparent regulation and effective coordination should be considered). -Minimal political interference.
Industry regulations	-To safeguard infrastructures, to maintain law and order, to facilitate financial and commercial mobility, to construction market relations, to prevent market abuse, and to interfere less with the private sector affairs. -Stable policies, legislation and political systems that motivate investment as well as a fair functioning of the financial market. -To solve problems, such price controls, and foreign exchange controls, excessive borrowing by the government, heavy taxation, restrictions to employment, and requirements for the use of local supplies. -To ensure transparent bidding.
Trade Unions (TU)	-Protect the rights of the employees (with respect to issues such as appointment, dismissal, rewards, sanctioning, raise in salary, benefits), and to stimulate the consensus between the union and enterprises. -Develop education and training programmes to increase employees' skills.
Aid Agencies	-To encourage LDCs to adopt structural adjustment policies and to assist them in creating suitable business environments by means of establishing stronger capital markets, introducing export zones, public sector reform, TU activities, party politics, government intervention, developing a market economy, increasing financial regulation and decreasing political intervention.
Economic conditions	-Unstable economic give rise to inflation, which in turn affect GDP growth, make long-term planning difficult, encourage firms to increase their inventory and debts, and frustrate investment. -The impact of structural adjustment programme(SAP)
Competition	-Cost issues knowledge, performance measurement utilisation, participation and effective MCS -Competition stimulates a change of strategies, which required MCS change.

Table 3.2: External factors and expected changes after privatisation
Source: Hopper et al, 2004, Peansnell, 1993 and Shehadi, 2002.

In summary, MCS are fundamental tools for market capitalism. In LDCs, MCS are expected to acquire a form similar to those which exist in the Western economies. The development of MCS involves a number of prerequisites, such as pricing and resource allocation, decision market oriented strategies, and minimal state intervention. In addition, proper incentives are required where managers can be sanctioned for insufficient decision-making. Other vital conditions are regulations and a transparent accounting system, control structures free from bureaucratic control via which both management and employees can wield influence on efficiently collective bargaining systems, an entrenched labour market, and a climate in which decision-making is based on organisational criteria rather than on personal or political considerations.

Fair, transparent, modern and market-oriented accounting systems enhance the decision-making processes, reporting practices and the attainment of general objectives. However, given that the concepts of capitalism and privatisation are relatively new to LDCs and have not so far been completely entrenched in their socioeconomic structures, existing theoretical predictions may not be applicable to those countries. What should instead be considered here is the reality of LDCs (Hopper *et al.*, 2004a). Researchers should recognise what firms in LDCs actually do, rather than imposing the perceived benefits of Western accounting practices onto firms in LDCs regardless of the particular circumstances of the countries.

Table 3.2 summarises the main issues dealt with in this section. It comprises a list of the relevant contextual factors and the theoretical expectations for better firm performance and MCS with respect to market capitalism in LDCs.

3.6 Summary

This chapter reviews the main empirical evidence on the impact of privatisation on firm performance in developing economies. The empirical evidence provides an insight into post privatisation MCS practices in LDCs. The evidences demonstrate that the real impact of the privatisation process on firm performance in LDCs does not correspond with the theoretical suppositions. This could be explained by the instable macro-economic surroundings and ineffective institutional, weak competition and insufficient regulatory capacity which exist in LDCs.

In addition, there are unfavourable factors at play, such as weak law enforcement, poor capital markets, and the deficiency of mechanisms to encourage private sector performance, such as monitoring by institutional shareholders. Under these conditions, private-owned companies cannot be expected to produce better performance. Many of the existing studies on privatisation in LDCs point to one or another of these factors to explain why privatisation in these countries has not produced the expected results. The expectations with respect to the results of privatisation are founded on studies conducted in the West, but these studies fail to consider the influence of contextual factors at play in LDCs when it comes to firm performance. These factors are generally speaking market and country conditions. Even though it is commonly acknowledged that privatisation has an impact on MCS and firm performance, the studies undertaken so far do not offer an adequate analysis of the changes taking place.

On the basis of the studies reviewed in this chapter, one can argue that research into the impact of privatisation on firm performance should be conducted from a wider socio-economic and political perspective. Some of the studies referred to in this chapter do in fact conclude that the success of privatisation along with the development of an effective MCS and firm performance relies on a number of contextual factors. However, those studies do not provide a detailed enough analysis of these issues. Most research studies dealing with firm performance and MCS change in LDCs have focused on the bottom line; that is, they have examined financial measures to monitor quantifiable indicators of change. However, few studies have taken a proper look at the influence of those identified factors in a collective way, using a broader contextual perspective.

In order to address this issue in more depth, this research framework intends to examine the changes on a broader range of MCS practices and firm performance adopted in LDCs, as well as investigating the internal and external contextual factors at play, and their impact on firm performance in association with privatisation.

CHAPTER 4
Management Control System (MCS) and the internal factors

4.1 Introduction

As mentioned in Chapter 3, the privatisation transition period is characterised by changes in the socio-economic and political environments, new technologies and competition factors. It has been suggested that economic, social and political forces drive organisational change in ways not yet entirely understood in LDCs (Atkinson et. al., 1997). For example, Scapens (1999) argues that changes in the environment following the adoption of a privatisation policy causes change within organisations, which in turn leads to changes in MCS practices and firm performance.

As such, organisations have to continuously renovate themselves in order to prosper and survive (Danneels, 2002). As a result of changes occurring in the external environment after privatisation, risk and uncertainty is usually experienced by companies, thus requiring many firms to adapt their MCS to the changing environment. These changes may influence the way in which MCS are being used and applied. For instance, firms may choose to computerise their production processes, including the development of equipment and mechanised performance measures. Privatised firms are expected to execute improved MCS techniques to enable them to deal with the incessant environmental changes (Sunder, 2002). Therefore, it can be seen that knowledge of the reactions of firms to privatisation is of great importance in the process. Ill-conceived or poorly implemented reactions within companies after privatisation could detrimentally affect the key performance indicators of those affected impacted firms.

Generally, MCS is expected to react to environmental changes, given that these changes have an impact on the stability of firms. If no consideration is paid to external influences and management is not able to deal with them internally, a firm may be seriously undermined, and may even be at risk of bankruptcy (Sunder, 2004). Hence, managers must be constantly aware of both potential and existing threats, and be able to anticipate and deal with them by adjusting their policies in a creative, vigilant and timely manner (Sunder, 2002). MCS must aim to make available information to support the management in their decision-making, and must be adapted whenever environmental changes occur.

Whilst, to date, privatisation has been investigated and seen as a policy aimed at increasing the productivity and cost effectiveness of public organisations, this chapter highlights the impact of privatisation on the internal environment and, in particular, the potential effects of these internal factors on MCS and firm performance. The internal factors reflect how well or badly the organisation has performed after privatisation in creating value for customers and lower costs in order to achieve better financial performance. From this perspective one can thus describe the business processes at which the company has to excel in order to satisfy its shareholders and customers. Key factors within the internal business process are a capability to learn, the introduction of new technology, new strategies, and the firm's ability to take action in a timely and efficient manner. This internal perspective, which examines the achievement of organisational innovation resulting from privatisation, involves an investigation of the changes and improvements which a company needs to make in order to improve MCS and firm performance.

This chapter gives an overview of the relevant literature available on MCS practices and internal factors. First, the definition and formulation of MCS are presented in section 4.2. Section 4.3 presents the various MCS techniques and assesses recent developments that have necessitated changes in MCS practices, while focussing on the most common MCS techniques, the expected changes following privatisation, and the relationship of improved MCS practices and firm performance. Section 4.4 discusses the internal factors that might hinder or facilitate the expected changes of MCS and firm performance. Subsequently, the conceptual framework of the study is presented in section 4.5. The final section of this chapter comprises a general summary of the topics covered in this chapter.

4.2 The definition and the formulation of MCS

The literature provides various interpretations of the concept of the management control system (Marciariello, 1984; Anthony and Herzlinger, 1986; Jensen and Meckling, 1976; Hopper and Berry, 1983; Hofstede, 1968). For example, Anthony (1967) defines MCS as "*the process by which managers ensure that resources are obtained and used effectively and efficiently in the accomplishment of the organisation's objectives*" (cited in Otley et al., 1995, p. 32). This school of thought is one of the most widely acknowledged promoters of contemporary management control systems, distinguishing management control from strategic planning and operational control. The traditional definitions of MCS as given in accounting books published in the US mainly apply to large organisations with several divisions. As per this model, MCS is used principally to observe the performance of division managers (Puxty, 1989: cited in Otley, 1994).

As per Anthony's definition, organisational strategy is the basis upon which MCS serves as a tool to support its adoption. Definitions of MCS are traditionally based on the assumption that employees are not permitted to participate, and that control is exercised in favour of the owners (Wickramasinghe, 1996; Gaffikin, 2005). This kind of control system may result in tight control, unfair wages and disciplinary actions. Furthermore, this may create a climate in which employees are not motivated to improve their productivity. Thus, firm performance will deteriorate and the development of a nation may be hindered (Wickramasinghe, 1996).

However, more recently, Anthony (together with Govindarajan) has changed the emphasis of MCS concepts so that they now incorporate strategic planning as the first step (Anthony and Govindarajan, 2001). Thus, it follows that strategic planning shapes MCS, whereas the processes of strategy formulation and transaction-oriented task control are new matters added to the scope of MCS. The diversity of interpretations of MCS implies that the literature does not assert a single dominant paradigm representing specific applications, theories and methodologies for MCS (Macintosh, 1995).

Both external and internal contextual environmental factors have changed the nature of businesses today. Otley (1994) indicated that the management of a modern business requires flexibility, a broader focus, a willingness to learn and a larger degree of adaptation, but that traditional MCS are not based on these concepts. Therefore, Otley argues that Anthony's definition is no longer relevant and that it is disruptive to the progress of the field of management accounting. Modern MCS literature is mainly aimed at worker-oriented control systems (Macintosh, 1995; Gaffikin, 2005a). Here, the focus is on an apparent participation of the employees in the decision-making process. The assumption is that if employees are being trained in effective way, they will become more motivated in their work, and consequently labour productivity will increase. In such a situation, an enterprise will be inclined to pay its employees more, consequently encouraging investors to make additional investments (Wickramasinghe, 1996).

MCS play a central role in business organisations, as they serve as an instrument for the company to survive in an uncertain environment. Otley indicates that, in an environment of continuous change, management is forced to adjust itself continuously, which requires the active participation of a larger number of organisational figures. As such, there is a call for empowerment at the lower levels of the organisation. Empowerment means giving the lower levels in the organisation both responsibility and authority, so that they are encouraged to take action which is necessary to attain the organisation's objectives. In this context, MCS can be used as a control device by work groups on all levels. Additionally, studies on performance measurement suggest that the integration of both non-financial and financial control methods facilitates the accomplishment of organisational objectives (e.g. Eccles, 1991; Flapper et al., 1996). According to Simons (2000), an MCS definition has to incorporate the *'inherent tension'* between constraint and freedom, accountability and empowerment, bottom-up creativity and top-down management, and experimentation and efficiency.

Simons (2000) has exchanged the term MCS for the new expression, "*Performance measurement and control systems*". The definition of the new term is that MCS is "*the formal, information based routines and procedures managers use to maintain or alter patterns in organisational activities*" (Simons 2000, p.7). The integration of MCS with performance measurement can also be seen in Otley's (1999) proposal on his modern MCS framework, in which he criticises the scope of traditional MCS frameworks as too narrow, and highlights the current significance of performance measurement. Consequently, performance management is seen today as a key element of modern MCS.

In this study, the definition by Simons (2000) is adopted. This definition is broader than that of Anthony, since it facilitates dealing with the external and internal contexts of firms through altering these changes in organisational activities. This definition also demonstrates how managers control strategy formation and implementation by considering the above-mentioned tensions (Simons, 2000). In addition, this definition supports the integration of non-financial performance and financial measures, and takes into account the wider empowerment and participation of employees. As a consequence, most of the matters uncovered by various earlier MCS definitions are covered under the one definition.

As argued earlier, external environmental changes may necessitate adaptations in MCS practices in privatised companies in LDCs. In this regard, Simons' definition is again preferred, as it permits the possibility of detecting MCS practice changes in the wider political and socio-economic contexts of LDCs. Simons indicates that there are four relevant control activities included in MCS: diagnostic systems, beliefs systems, interactive systems, and boundary systems. These systems are discussed in more detail below.

The *diagnostic systems* are the formal information systems used by managers to monitor organisational performance and detect deviations from targets. Some examples of diagnostic systems are budgets and business plans. They work as tools for the manager to utilise in evaluating and monitoring corporate performance. It is argued that the proper assessment of business processes and firm performance improves resource allocation and stimulates managerial motivation. Data generated by diagnostic systems are expected to be valid and reliable. The systems are also used to measure performance levels, or output variables, of the strategies adopted by an organisation. They are generally based on performance indicators such as efficiency and effectiveness. However, these performance indicators may change when organisations change their business strategy (Simon, 2000).

Beliefs systems are formal systems used by owners- managers to define, reinforce, and communicate the core values, goals, and direction of the organisation. These belief systems indicate the fundamental values, the desired performance level, and how staff members and individual workers are expected to manage relationships both externally and internally. Beliefs systems are usually contained within official documents, such as mission statements and objective statements. They are primarily used to define the meaning of strategic change and to inspire and stimulate the workforce in the process of the firm's growth. Moreover, these systems are typically used to empower the individual workers and engage them with the enterprise's objectives and its general plan for new competitive advantages and opportunities (Simon, 2000).

Interactive systems are official information systems used by managers to directly engage in the decision-making of subordinates. In addition, these systems are considered to be underlying core systems which provide facts for managers throughout the organisation on a regular basis. These control systems are helpful in focussing efforts on creating dialogue, particular issues, and learning stimulation, through allowing new strategies and ideas to emerge in response to opportunities and/or threats in the enterprise's competitive environment. However, this requires a specific climate characterised by openness, constructive debate and a willingness to accept criticism. Interactive systems are very effective in cases of strategic uncertainty, when opportunity seeking and inventive change is particularly required. Examples of strategic uncertainty might be changes in technology, state regulations and the introduction of competition. Interactive systems are based on the analysis of fundamental uncertainties, and their main objective is to simplify a proactive decision making process (Simons, 2000).

Boundary Systems are formal procedures based on predefined risks that are used to set confines on opportunity seeking behaviour. These systems are used to set boundaries for both business conduct and strategic choice. For instance, when internal trust is low and/or environmental uncertainty is high, managers may employ some measurements that define the scope of business performance on the basis of these systems. Moreover, boundary systems may constrain the degree of freedom afforded to managers, and lead to creativity becoming more focused. Boundary systems may be represented in negative terms, such as sanctions. However, they serve as an effective instrument to limit the potentially high costs of commercial experiments, and allow managers to delegate decision-making. If these systems are poorly managed, boundaries may hinder the adaptation schema for changing market, product, environmental and technological conditions (Simons, 2000).

In conclusion, it can be seen that interactive and beliefs control systems stimulate innovative and inventive action, whereas boundary and diagnostic control systems constrain decision making and ensure compliance with rules and specific measures. Diagnostic control systems monitor the firm performance and facilitate *"single loop"* learning, while interactive control systems are based on interactive processes and facilitate *"double loop"* learning. As explained by Simons, 2000:

> "Single loop learning refers to process control by means of single feedback, whereas double loop learning serves to analyse the motives for the strategy chosen. Double loop learning involves a double feedback loop that connects the detection of error with both the strategy chosen and the norms that define effective performance" (P. 107).

Boundary and Beliefs systems are effective when opportunities expand and the pressure to improve firm performance increases. Simons indicates that the effective implementation of a firm's strategy requires a balance to be struck between the four control systems (see figure 4.1). Thus, a strategy can be achieved from several perspectives; it's planning phase, its pattern and structure, and its position when taken in the overall context.

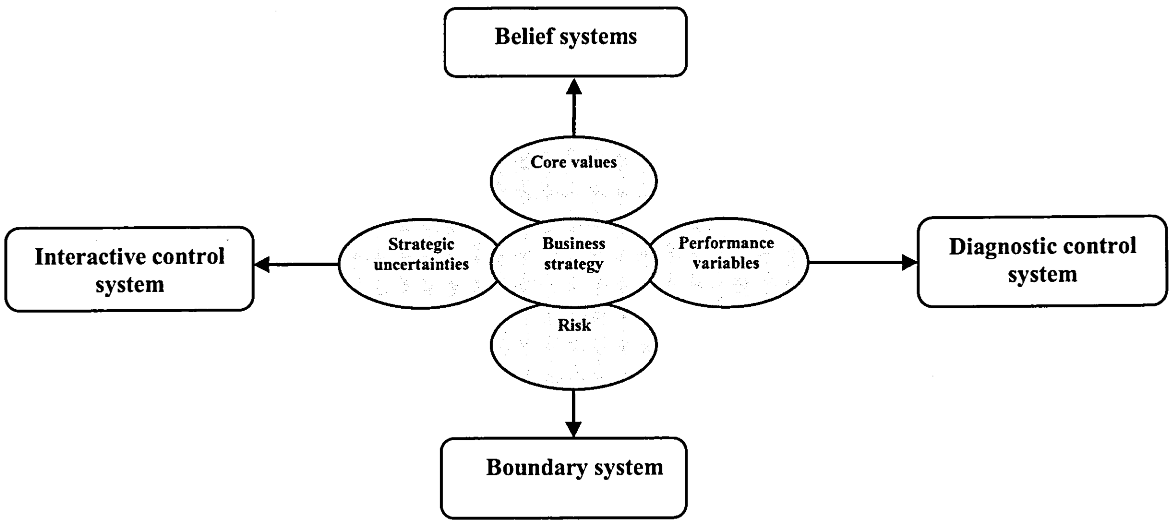

Figure 4.1 the relationship between the four control systems and firm strategy
Source: Simons, 2000

In summarising the above discussion, it can be said that MCS is the process that associates strategic planning and operational control in order to improve firm performance (Otley, Broadbent and Berry, 1995). The purpose of MCS is to provide useful information in relation to decision-making, evaluation and planning activities (Widener, 2007; Merchant and Otley, 2007). The focus of MCS is not only on one form of control, as with performance measures, but rather on four interrelated systems working together (Simons, 2000; Widener, 2007). While strategic control tackles the question of whether the strategy chosen by the organisation is suitable or not, MCS addresses the question of whether employees perform properly or not. Therefore, MCS are intended to help the organisation to motivate its employees to make decisions and to take suitable steps towards improving firm performance (Chow, Shields and Wu, 1999). In short, MCS have two main purposes: helping to ensure viable patterns of employee behaviour, and providing information useful to management in order to help implement and achieve organisational strategies and to improve firm performance.

4.3 Expected changes in MCS after privatisation

In order to collect evidence on the use of new MCS in newly privatised firms, consideration will be given to recent innovations in MCS techniques. In relation to MCS innovations, the researcher identifies the problems associated with the traditional MCS practices and addresses the motives for innovation. As such, one should be able to acquire a better understanding of the necessity of MCS changes, and will be able to explore more effectively the expectations of privatisation advocates that LDCs will be willing to adopt modern MCS techniques.

First, modernisations in the area of MCS are described. Subsequently, MCS techniques are discussed, and the relationship between MCS and firm performance is examined.

4.3.1 Modernisation in MCS

Private ownership requires proactive business strategies which anticipate the changeable movements of the market (Okeahialam and Kedslie, 1999). Therefore, MCS need to produce accurate, effective, and timely information to support the decision-making process (United Nations, 1991: cited in Okeahialam and Kedslie, 1999). MCS practices must be focussed on generating accurate costs, must relate activities and processes to strategic outcomes, and elaborate performance evaluation (Chenhall and Langfield Smith, 1998b; Gaffikin, 2005c). They should correspond to the privatisation policies and, if this is not the case, they must be renewed. Critics indicate that traditional MCS techniques no longer fit in with the conditions of the contemporary business environment, which involves rapid technological change, global competition and the development of new management approaches (Adler *et al.*, 2000; Kaplan, 1994; Johnson, 1992). Accordingly, modern MCS practices[3] and new management and production techniques are now being introduced.

[3] Examples of recent modernisations in MCS include activity-based budgeting, activity-based costing (ABC) and activity-based management (ABM), the balanced scorecard, strategic management accounting, on-financial performance measures and economic value analysis (e.g. Anderson and Young, 1999; Chenhall, 2003; Ittner and Larcker, 1998). Other examples are quality reporting, cost modelling, target costing, throughput accounting, back flush costing, product and customer profitability analysis just in time (JIT) methods, benchmarking, and life-cycle costing (Baines and Langfielf-Smith, 2003; Adler *et al.*, 2000).

The focus of these new practices is principally on cost control, for example, better estimations of resource quantities (IFAC, 1998). Often, cost control goes hand in hand with employee empowerment. It is generally recognised that by updating their MCS techniques, firms significantly improve their competitive position in the market (Adler *et al.*, 2000). However, in a number of Asian countries, the adaptation of new MCS practices has hindered development (Sulaiman *et al.*, 2004). These countries are Malaysia, Singapore, China, and India (Adler *et al.*, 2000). In these countries, traditional systems are still considered favourable in terms of managing an enterprise. Additionally, the attitude of managers is conservative, and they are inclined to avoid the risks and high costs associated with implementing new MCS techniques. Adler *et al.* (2000) also indicate that the lack of time and the availability of the relevant software, the traditional attitude of management, and the cost involved in hiring skilled employees, may all hinder the innovation of MCS in LDCs.

4.3.2 MCS techniques

As in the case of privatised firms in Western countries, privatisation is generally expected to smooth the progress of introducing MCS. This assumption is based on the belief that ownership change will bring about the introduction of superior MCS (Vickers and Yarrow, 1988). Superior MCS is supposed to be an incentive, transparent based control system, with market driven budgets, and free from political and bureaucratic interference. In addition, improved MCS should be a system that certifies employees' participation in the control process, and that imposes appropriate responsibility and accountability upon managers and employees.

It is therefore assumed that the replacement of the traditional inefficient control systems by modern MCS techniques, which are more product-oriented, will directly result in an improved economic welfare and firm performance (Waters, 1985; Uddin, 1997). The assumption is that privatised enterprises will initiate MCS linked to economic rewards and a more efficient allocation of resources. In addition, it is assumed that internal controls will be converted into a more sensitive method for altering operations in accordance with market information received, and communications will develop in tandem with advances in information technology. Hence, a more transparent, contemporary and market oriented MCS will be formulated to facilitate the decision-making processes, reporting and the overall achievement of a firm's objectives (Hopper et al. 2004a).

In terms of this study, the most common and important MCS techniques have been identified and selected. These have been well documented in the literature, and serve as a starting point from which to investigate the expected changes in MCS. These techniques include; budgeting and planning, internal reporting and decision-making, costing and pricing, cost control and waste minimisation strategies, and performance evaluation systems. The next sub-section discuses these concepts in more detail, considers their importance, examines the degree to which they are used and investigates the changes expected after privatisation.

As mentioned before, there is currently insufficient documentary evidence and literature available on MCS change in LDCs. The main focus of the available and existing research was on survey studies which did not really offer sufficiently detailed information. However, reviews of former studies on MCS change are presented here to help the researcher develop the conceptual framework for this research. This review will help to identify the various new MCS techniques and their components, and to evaluate their usefulness.

Planning and Budgeting

Where uncertainty is a feature, a constant flow of information is required from MCS. If handled poorly, information exchange can be highly detrimental to the change process, as rumours tend to be worse than reality in most cases (Kanter and Seggerman, 1986). Fidler and Johnson (1984) argue that the ultimate acceptance of a change initiative "*often rests on the extent to which communication can act to reduce uncertainty by ameliorating such factors as risk and complexity*" (p.704). The planning and budgeting technique serves as a method of authorisation as a means of planning, forecasting, performance evaluation and control. Moreover, it is considered as a channel of coordination and communication, as a motivational device, and a basis for decision-making, as well as a tool for the effective allocation of scarce resources (Sulaiman *et al.*, 2004).

In private enterprises, the budget is considered as the main tool for the rational and objective control of sub-units. However, this approach has its limitations. Many researchers argue that control based on a budget is only effective when cultural factors and socio-political elements are also taken into account (Hopper *et al.*, 1986; Burchell *et* *al.*, 1980). Hoque and Hopper (1997), for instance, indicated that the budgeting process in the nationalised jute mills in Bangladesh was hindered by industrial turbulence and political factors. They concluded that these contextual factors affected budget and planning related matters. They further claimed that there was an important link between the external environmental factors and the budget related behaviour of managers. They also found that, factors such as industrial relations and macroeconomic conditions, which were often neglected, played an essential role in the process.

Anderson and Lanen (1999) indicate that, after the economic reform in India in 1991, the planning process became more decentralised, thus giving employees a better view of the strategic objectives of their firms. As such, they found that budgeting policies would be more realistic after the adoption of the standard and clear procedures resulting from privatisation. In addition, they identified that there was a more significant level of involvement of employees in the making of these policies and any subsequent revisions. In this regard, customer satisfaction and expectations information took on greater importance. El-Ebaishi *et al.* (2003) indicate that more than 74 % of Saudi firms apply master budgets and prepare sales budget, while production budgets are principally used by larger firms. In addition, there is some evidence that some companies are using new management control systems, such as just in time (JIT) and product life-cycle systems. However, it should be notes that most of the Saudi firms are family owned businesses managed primarily by the owners, and thus the level of other managers' participation is relatively low. Consequently, budgeting and planning control techniques are used less frequently, but it is rather the attitude of management which seems to play a crucial role in the selecting of MCS techniques.

Internal Reporting and Decision-making

Efficient decision-making entails information being provided in a well-timed and uniform fashion and on a regular basis (Macias, 2002). It involves selecting courses of action using an incremental analysis approach (Weygandt *et al.*, 2002). Studies show there is a tendency towards regular information provision within the decision-making process, whereby non-financial measures play a vital role (Libby and Waterhouse, 1996). Drury *et al.* (1993) list a number of challenges to the effectiveness of management accounting reporting including the transfer of accurate and on-line information to the shop floor in a timely manner, and the adaption of the information system so that it interfaces with other systems and becomes “real-time”.

Further empirical evidence highlights the importance of reporting information during periods of organisational change. Covin and Kilmann (1990) compiled a list of 900 issues which most affect the success or failure of large-scale organisational change. They found that a failure to inform people or to share information sufficiently as to why and what changes are necessary was viewed as having a highly negative impact. The failure to assess dysfunctional rumours, dishonesty and secrecy, such as those mentioned above, were also matters of concern. Other studies have called for the need for effective information dissemination to reduce anxiety about change (Kitchen and Daly, 2002; Smeltzer, 1991) and to increase willingness to participate in planned change (Miller, Johnson and Grau, 1994).

Communication is also vital in ensuring acceptance of the change initiative. Fairhurst's (1993) case study of the implementation of a total-quality program found that effective communication by managers resulted in gaining a wider acceptance of a planned change. Fairhurst characterises implementation as an internal campaign in which top leaders both sell and spread the word of change programs. She argues that these internal campaigns are "*planned, organised efforts to mould corporate images, manage issues and articulate values*" (p.334). Anderson and Lanen (1999) indicate that, after the reforms in 1991, Indian companies started applying accounting techniques for managerial purposes consistent with the requirements of external reporting. Improvements were particularly encouraged by obtaining internal information on the change process through quality measures. Their study also reveals a sound demand for focusing on decision making which is based on fact and reality.

Product pricing and costing

Traditional absorption pricing and costing systems, which are commonly based on labour cost per hours, have been criticised as inaccurate instruments for the decision-making process. Traditionally, overhead costs are assigned to cost departments, dependent on the labour cost percentage as an over-blanket rate. However, this approach does not include the cost information required, and therefore no solid basis for decision-making is generated (Duck, 2001). For these reasons, the ABC approach was introduced (Ahmed, 1992). The ABC approach essentially identifies the actual drivers of costs. Unfortunately, despite its usefulness, it is not widely employed in LDCs (El-Ebaishi *et al.*, 2003).

In this regard, Abdel-Kader and Luther (2004) found that only 50% of the firms they studied classified their costs into fixed and variable components, even though most of them indicated that this method would help support decision-making. Moreover, some studies indicate that smaller firms in particular do not apply this technique because it is rather complicated (Duck, 2001). Abdel- Kader and Luther argue that variable costing is more frequently used than the various forms of absorption costing. A study by Anderson and Lanen (1999) shows that after the 1991 reforms in India, companies have used cost data for pricing, quoting, and planning. Before the reforms, the cost data was mainly used to assess production employees. In addition, El-Ebaishi et al.'s investigation of Saudi firms (2003) shows that only 60% applies standard cost. Adler et al. (2000) found in a study on the New Zealand manufacturing industry that the full costing technique is the most frequently employed MCS method, and appears to be more admired than any other new MCS techniques.

Finally, the literature suggests that the majority of firms rely on full cost rather than on variable cost information for their pricing policies (e.g., Shim and Sudit, 1995; Drury and Tayles, 2000). However, the accounting literature indicates that short run prices should be based on variable costs, while in the long run, all costs are treated as single variable (Garrison and Noreen, 1997; Horngren *et al.*, 1996; Pashigian, 1998).

Cost control and waste minimisation strategies

It is widely recognised that the goals of private firms are clear and are related to profit maximisation and value creation for shareholders. In state-owned firms, however, the goals are usually blurred, multiple, conflicting and unstable and often include both financial and political objectives (Cuervo, 1997). An observable consequence of this difference in goals is the difference in their measurement. The measurement serves as a basis for establishing cost control mechanisms (Schay, 1993). The financial objectives of private firms are evaluated by accounting measures or by market-based measures, such as stock prices. Control systems aimed at aligning managers' interests with shareholders' can be performed in a similar manner.

The importance of the link between control systems and goals usually increases with privatisation (Schay, 1993). Control in public firms is purely formal and administrative and is exercised by different government agencies. With privatisation this practice is replaced with a more objective and outcome-based control system. Duck (2001) argues that cost reduction methods involve periodic appraisal of various issues, for instance, design, components used, substitution with cheaper materials when possible, and production methods. Scrap control could also be used as a cost reduction method. Regarding control of labour costs, productivity and labour efficiency techniques are used to assess the production levels achieved. Labour productivity is based on output measured in physical units and calculated as output per person-hour, but only for productive labour.

Quality is an essential element in business strategies where improvement is closely related to the competitive environment (Adam et al., 2001). In this regard, the attention of companies should be on customer satisfaction and employee participation, which would result in better quality improvement. Adam et al.'s study indicates that involvement of employees' in Mexico and the USA led to an increase in quality in terms of a reduction in the costs associated with internal failures, defective items and quality cost.

Performance measurements and evaluations

An increasing number of managers in private and public sector organisations are instituting performance measurements and evaluation systems. This is as a reaction to pressure from the changing environment whereby individuals are becoming far more accountable for their own performance, and more interested in their ongoing career within the organisation (Schay, 1993). Employees have come to expect a great deal more from their employers in terms of skill development and enhancement of individual competitiveness.

When judiciously implemented, monitored and evaluated, it is possible for performance systems to contribute positively to the strategic planning of organisational vision. A performance system can have powerful formative effects on power structures, workforce skills, company profile and corporate culture by clearly identifying goals, systems, procedures and behaviours that are consistent with organisational vision (Schay, 1993). These effects are often overlooked when designing a performance system, but should become central to considerations in developing performance appraisal as a strategic tool (Dunphy and Hackman, 1988).

To use performance measurements strategically, managers must understand that different performance systems are appropriate for different kinds of business strategies. When the relationship between business strategies and performance systems is understood, managers can select a performance system with overall features that support the organisation's corporate strategy (Schay, 1993). For instance, non-financial measurements include issues such as timeliness of delivery, employee education and training, customer satisfaction, material scrap loss, employee turnover, product defects, market share, performance team, set-up times, supplier evaluations, and employee satisfaction (Baines and Langfield, 2003). Some researchers indicate that the importance of non-financial measures is increasing, and that they are now widely applied everywhere (Bhimani, 1994). Other examples of non-financial measures are, for instance, throughput, inventory turnover, innovativeness, quality, benchmarking, economic value added, the balanced scorecard and working conditions (Chenhall and Langfield-Smith, 1998; Abdel-Kader and Luther, 2004). Research by Langfield-Smith (1998) indicated that firms which use product differentiation strategies benefit from both new non-financial information and MCS techniques.

MCS Techniques	Expected changes after privatisation
Planning and Budgeting	-Advanced budgeting (process of preparation and level of participation) -More strategic profit planning -Higher level of operations planning -Long-term planning (Capital Budgeting) -Co-ordination of activities
Internal Reporting and Decision-making	-Effective communication of MCS information in terms of frequency of reporting information ,timeliness and accuracy -Use of more non-financial measures -Information reported more broadly -Use of existing systems but interpreting the results differently -Decision-making responsibility(effectiveness)
Product costing and Pricing	-Type of costing system (Actual costing vs. Standard costing, Absorption vs. Variable costing) -Nature of cost accumulation and allocation -Type of pricing system and use of MCS information -Freedom in pricing
Cost Control and waste minimisation	-Applying quality control methods -Improvement in waste minimisation techniques
Performance measurements and evaluation	-Measurement of performance in terms of quality -Measurement of performance in terms of customer satisfaction -Measurement of performance in terms of delivery innovations -Reward systems (bonuses and salary increments)

Table 4.1: List of MCS techniques and expected changes after privatisation
Source: Waweru *et al.* (2004) and Libby and Waterhouse (1996)

In summarising the above discussion, the traditional paradigm of MCS that was based upon profit, cost, investment, revenue and discretionary expense centres has been replaced by a modern framework in which every organisational unit can be considered as a strategic business unit. The MCS is no longer based on the budget, whether for profits, costs, revenues, or discretionary expenses. Private enterprises should use the more powerful MCS to motivate, control, align, and evaluate the performance of diverse organisational units. Table 4.1 contains a list of MCS techniques and the changes which would be expected after privatisation. The list is based on the work of Waweru *et al.* (2004) and Libby and Waterhouse (1996) and has been slightly modified to fit this research.

4.3.3 Management control system and firm performance

In this sub-section, the Western literature on the role of improved MCS impact on firm performance is presented. This literature supports the proposition that MCS information that provides data on both external circumstances such as customer preferences and competition, and internal conditions such as technology and firm strategy, would contribute positively to firm performance. The study used the Western literature as its point of departure, since there is no sufficient documentation available on the context of LDCs. This sub-section might help to clarify the role of improved MCS regarding firm performance.

It has been argued that financial performance measures alone might not improve a firm's financial performance, because they simply designate the outcomes of past activities, which may not help to develop future performance. On the other hand, non-financial measures provide an overview of the factors that influence future financial performance (Banker *et al., 2000*). Thus, in order to provide effective management, information which could be used properly to address the data on, for instance, manufacturing operations must also be included (Nanni *et al.*, 1992). The majority of existing research supports a positive association between non-financial information inclusion and firm performance. In this regard, Mia and Clarke (1999) found an indirect relationship between the business unit performance and the use of MCS information. Chong and Chong (1997) and Davila (2000) argued that the use of non-financial information by companies employing customer-focussed strategy approach has a positive impact on firm performance. Abernethy and Lillis (1995) and Sim and Killough (1998) also indicate that firms have enhanced their performance on the basis of non-financial information. Scott and Tiessen (1999) indicated that firm performance improvement was due to comprehensive performance measurements which combined both non-financial and financial information. Ittner and Larcher (1995) and Sim and Killough (1998) both found a positive relationship between total quality management practices, MCS information and firm performance.

In addition, Lin Sum, 1979 (cited in, Hopper et al. 2004b) observed that implementing the Western MCS in China due to increasing responsibility and autonomy in the country, has led to an improved economic performance. However, factors such as *type of technology*, *organisational strategy*, and the *environmental* as well as *structural* issues might also have an impact on firm performance and the extent of the use of non-financial performance measurements (Daft and Lengel, 1986, Ittner and Larcker, 1998). The study by Baines and Langfield-Smith (2003) also indicated that the increasing competitiveness within the business environment has led to greater focus on differentiation strategies, affecting the nature of the organisational design, technologies, improved MCS practices and firm performance. This impact requires a greater use of non-financial accounting information to improve firm performance.

Moreover, for firms to be successful, they should not only focus on improving their financial performance, but must also pay attention to issues such as human resources and customer satisfaction. Besides this, there must be clarity on an organisational level regarding the selected strategies (Lingle and Schiemann, 1996). These strategies must be based on appropriate criteria for success. For instance, financial performance would not improve on the basis of quality criteria if these are not of value to the customers. Innovation strategies might fail unless they are initiated in a renewed and realised environment. Similarly, adjusting the organisational design to the business environment would be ineffective if the selected strategy is inappropriate (Miller, 1982; Pelham, 1999).

In summary, information is now recognised as one of the most essential tools for firms' wealth maximisation. Given the dynamic nature of the business environment, the function of MCS is to provide updated information which helps managers in taking the appropriate decisions and implementing beneficial organisational change to the firm. Incomplete and inadequate accounting information would certainly undermine the effective management of resources and hinder the prospect of an improvement in firm performance.

4.4 The internal factors

Privatisation is a change from government ownership to private ownership of a firm, and results in a continuum of changes in the ownership structure and the management style. Transforming an enterprise from a public owned to a private owned entails fundamental changes in the overall aspect of the management and associated MCS (Pallot, 1998). Privatised firms have had to adapt to changes in their external environment and market requirements, with major changes in their internal environment resulting from privatisation (Goodstein and Boeker 1991). This change is reflected in the development of new strategies and increased responsiveness to environmental changes, and also in restructuring their MCS (Goodstein and Boeker, 1991).

Privatisation led to the appearance of new challenges associated with the new market environment (Macias 2002). In general, recently privatised firms are expected to readjust their core values immediately, and to adopt a more goal-oriented approach. Such an approach is essential in attaining a successful standard of performance. In this regard, the top-managers are the main actors liable for the company's future. They are the ones who can implement proactive strategies and anticipate environmental changes. That is why, subsequent to the privatisation process, top-management personnel may have to be replaced. As indicated by Ramaswamy (2001), in the majority of LDCs, the managers of SOEs are bureaucrats rather than profit-oriented executives. They are usually political appointees or seconded by the Civil Service (Shirley and Nellis, 1991). Not surprisingly, most of them do not have the required management skills and are less qualified than their counterparts in private enterprises (Ramaswamy and Von Glinow, 2000). Additionally, in LDCs, managers have less opportunity to extend their skills. Moreover, they are not familiar with the concept of involving lower levels of the enterprise in the decision-making process, which involves aspects such as hiring employees, reward and compensation systems, training and development and performance measurement.

Little can be found in terms of published works on the change processes of MCS and firm performance in firms in LDCs. In the case of LDCs, the privatisation process might cause organisational change in terms of the composition and powers of the accounting staff, and managerial attitude. These factors may affect the way in which management control systems are used. For instance, firms may decide to automate their production process, involving the development of equipment and machine-based performance measures. Otherwise, cost structures might change, involving a reconsideration of the overhead cost application rates. In addition, competition may increase the focus on quality standards and associated cost information. On the other hand, MCS change might be delayed by problems relating to the companies in LDCs, such as an accounting staff shortage, difficulties in recruiting new staff, a lack of authority, a lack of effective communication and a lack of interest and support from owners and managers.

Throughout the assessment of the internal factors, the research has partly drawn on the contingency theory[4], since it enables one to explain MCS changes and firm performance resulting from privatisation on the basis of a number of influencing variables (Innes and Mitchell, 1990). The contingency theory supposes that the application and design of MCS are influenced by the context in which they are applied (Chenhall, 2007). Therefore, the contingency approach aims to identify the best usage and design of MCS in any given context (Chenhall and Chapman, 2006). The contingency-based research in MCS helps to examine the way in which contextual factors are related to aspects of MCS, and attempt to assess whether this association is linked to firm performance (Chenhall and Morris, 1986; Chenhall, 2003; Merchant, 1985). One aspect of resource related contingencies is based on the view of the firm which takes into account the internal capabilities of the firm, such as knowledge, skills, and information (Peteraf, 1993; Mahoney and Pandian 1992). For instance, MCS may play an important role in the motivation and internal coordination of employees, depending on the nature of knowledge and skills that are essential for better firm performance.

In this regard, Innes and Mitchell (1990) indicated that MCS change involves the interaction of several variables, for instance, the availability of adequate accounting staff, the degree of authority that an enterprise attributes to the accounting function,

[4] The basic premise of the contingency approach to management accounting is "*that there is no universally appropriate accounting system applicable to all organisations in all circumstances*" (Otley, 1980, p.413). Chenhall, 2003, further added that "*the term contingency means that something is true only under specific conditions*" (p.157). With such a meaning for him, there is no 'contingency theory' but "*rather a variety of theories may be used to explain and predict the conditions under which particular MCS will be found or where they will be associated with enhanced performance*"(p. 157).

computing resources, production technology, and the product cost structure. In addition, there are other conditions that are directly connected with MCS change.

Based on the contingency theory, firm performance and MCS practices are affected by contingency factors (Fisher, 1995; Sharma and Nandan, 2000). An effective design which corresponds to internal organisational elements with contingency factors is expected to lead to an effective firm performance (Otley, 1980; Langfield-Smith, 1997). In this study, the following internal factors have been considered: the capability to learn (Libby and Waterhouse, 1996), introducing new technology, change of strategy (Haldma and Lääts, 2002) and the capability to undertake actions (Greenwood et al., 2002). These internal factors were selected on the basis of their relevance as confirmed by the results obtained in the pilot study. These factors are believed to play an important role in MCS change, as well as facilitating the analysis and the explanation of the privatisation phenomena more thoroughly. In the following sub-sections, these internal factors are addressed.

4.4.1 Organisational capability to learn

Internal firm resources should be bundled together in such a way as to produce one or several firm capabilities to yield superior performance (Wernerfelt, 1984; Penrose, 1959). The central task of organisational mangers is to obtain resources and assemble them into productive capabilities so that the enterprise has a sustainable competitive advantage in the marketplace (Barney, 1997). Organisational capability to learn is increasingly important as the rate of change outside of the firm increases, which puts pressures on changes to unfold faster within the enterprise (Oxtoby et al., 2002; Grant, 1995).

In other words, managers should engage in experiential learning, develop and refine cognitive structures and engage in culture formation. Through linked communities, practice, knowledge, rules for action and culture are spread. This implies that heterogeneity will be more common than uniformity. However, this tendency will be curbed by the efforts of managers to impose formal definitions of culture and practice, and by their attempts to capture informal definitions in daily routines (Bazigos and Burke, 1997; Brown and Duguid, 1991; Smith, 2005). Managers can use such theory to assist with privatisation initiatives, provided that skill and learning objectives are clearly identified and made specific to operational teams. Ideally, this would also be reinforced through effective ongoing training which reinforces the desired behaviours of the new enterprise (Smith, 2005).

The innovation of MCS techniques depends mainly on whether the enterprise has sufficient experts to implement them (Cohn and Levinthal, 1990). If this is not the case, then the enterprise should be able to provide the necessary training and to hire skilled employees (Firth, 1996). In addition, the full support of senior management and a sufficient degree of commitment from the enterprise as a whole, are other conditions which are required for the successful implementation of new MCS techniques. In order to survive in the newly privatised environments, sophisticated MCS should be developed by the management. In this regard, Dzakpasu (1998) indicated that effective managerial practices are crucial in the new privatised environment in LDCs, particularly because it is not yet fully developed and matured. He further asserted that improvements in the management effectiveness of the privatised enterprises would increase firm performance.

4.4.2 Introducing new technology

The introduction of new technologies has changed the structure of cost control. New technologies, for instance, computer integrated manufacturing and "just in time" systems (JIT), indicate that the proportion of inventory and direct labour costs is declining. The operations speed is no longer determined by how fast the operator can work, but by the type of automation used (Dhavale, 1996). However, since traditional cost control systems are focussed principally on variance analysis, aggregate costs and inventory do not provide management with proper information regarding resource consumption and performance achieved (Kaplan, 1994; Bruggeman and Slagmulder, 1995).

Thus, the use of new MCS techniques, for instance life-cycle costing, benchmarking and target costing, are clearly gaining momentum (Granlund and Lukka, 1998). These techniques provide a better approach to resource management and are more customer oriented (El Nathan et al, 1996). Consequently, quality improvement programmes are introduced, directed at the development of employees' skills, waste elimination, and cost reduction (Sim and Killough, 1998). As such, there is clearly a positive relationship between technology innovation and the specialisation rate of the staff (Kimberly and Evanisko, 1981). In this regard, El-Ebaishi *et al.*, (2003) indicated that, even if LDCs recognise the necessity of updating their technology, they do not pay enough attention to the development of management skills. Thus, the deprived performance of public firms in some LDCs could be partly explained by the continued existence of poor management skills.

4.4.3Changes of strategies

According to Govindarajan and Shank (1992), in order to make MCS more effective, they should be accompanied by an appropriate strategy. In other words, attaining success in a dynamic business environment entails strategies intended for quality improvement, reduction in lead times as well as flexibility concerning customers' requirements, inventories and production costs (Lucas, 1997: cited in Sulaiman *et al*, 2004). Anderson and Lanen (1999) examined the relationship between the competitive strategies of privatised Indian enterprises and MCS change. They argue that MCS changes go along with other organisational changes, and that the traditional systems are used in qualitatively different ways. Callahan and Gabriel (1998) and Chenhall and Langfield-Smith (1998b) demonstrate a direct relationship between the introduction of new MCS strategies and high business performance, for example, quality improvement programmes, benchmarking, product differentiation strategies and balanced performance measures. Modern MCS techniques are engaged with differentiation priorities, for instance, quality and customer service, while the traditional systems are based only on finance-oriented priorities. Strategies which focus on customer requirements are usually combined with empowerment of the lower level staff (Chenhall and Langfield-Smith, 1998b). Within this customer-oriented perspective, traditional performance measures are no longer effective (Shank, 1989).

However, there are also firms who attempt to attain cost efficiency by improving the traditional systems. These improvements comprise the reduction of non-value-added activities, the downsizing of operations (Chenhall and Langfield-Smith, 1998b), and an investment in new fixed assets (Hamel and Prahalad, 1994). Enterprises that adopt low price strategies generally use the traditional control systems, such as variance analysis and budgetary performance measures, in order to realise cost control (Johnson and Kaplan, 1987). In this way, managers are able to break down the variation between actual cost and standard costs into various components, such as volume variation, material cost variation, and labour cost variation. Consequently, managers can recognise why costs are different from what was planned, and take appropriate action to remedy the situation.

4.4.4Capability to undertake action

The 'capability to undertake action' is the ability to manage the transition process. This entails three aspects: having an obvious conception of the new objectives, implementing an adequate strategy to achieve these objectives, and having the competencies and skills to operate successfully in the new environment (Greenwood and Hinings, 1996). This factor includes matters such as the management attitude, development of skills, the influence of power, the availability of resources, and institutional isomorphism[5]. The capability to undertake action is expected to play a vital role in MCS change. The capacity to deal with the dynamic and ever-changing external and internal forces has become a key determinant of organisational survival and gaining competitive advantage (Greenwood and Hinings, 1996).

In Egypt, for example, a comprehensive economic and structural adjustment programme, including a privatisation programme, was commenced by the Egyptian government in the early 1990s. As mentioned in the previous chapter, this programme resulted in changes in the regulatory environment and created market pressures on the research cases enterprise. These companies were confronted with an organisational change as a result of institutional change and market competition which contributed to the MCS change. Given the role of the external contextual factors in driving the organisational change in these organisations, the neo-institutional theory provides a model of change that enables one to link the organisational context with intra-organisational dynamics. An important factor in intra-organisational dynamics is the capability to undertake action. Closely connected with this factor are the elements 'availability of resources' and 'skills', the capability to undertake action is considered to be an significant factor in MCS changes.

[5]DiMaggio and Powell (1983) indicated that the institutional isomorphism is not only resulted from coercive authority, but also resulted from environmental uncertainty, which is considered as a powerful motive that might lead to imitation. In this regard, Hassan (2005) asserted that the "*mimetic isomorphism is the force that drives organisation to mirror other organisations that are, in effect, deemed to be both successful and worthy copying*" (p.127) .However, the mimetic isomorphism may take place when firms technologies are poorly understood, when goals are ambiguous, or when the environment generates symbolic uncertainty; firms may then model themselves on other organisations that they perceive to be successful (DiMaggio and Powell, 1983).

In general, groups in an enterprise vary in their capability to manipulate organisational change resulting from privatisation because of their power differential. Some have more potential than others to facilitate or resist change. The pressure to change might stem from the behaviour of dominant groups in enterprises that are not satisfied with the way their interests are promoted. Therefore, change is more likely to take place, as those in advantaged positions and with adequate power are in favour of it (Greenwood and Hinings, 1996). Hence, the involvement and support of top-management is essential in order for the changes to take place (Bruns and Kaplan, 1986). In this regard, Young (1987) implies that the manager's personal behaviour influences the enterprise's strategic course and eventually its overall performance. This behaviour reflects the manager's power to decide the direction of the firm, based on his/her unique influential position (Collins and Moore, 1970). The manager's perceptions also manipulate the organisational task processes. For instance, the manager is the one who utters the decision criteria regarding matters such as product and service quality. He/she may be either a good or a poor negotiator and budgeter, and might spend too little or too much time on developing new ideas. He/she may be extremely focussed on certain processes while neglecting others (Young, 1987).

El-Ebaishi *et al* (2003) indicated that the nature of most LDCs societies are closed and conservative, which obstructs the introduction of new MCS practices. They noted that it would take a long time to encourage company managers to begin using the new MCS required for privatisation. Therefore, it can be seen that management attitudes play a vital role in the decision to introduce new MCS. Consequently, the dissemination of education and information on the importance and benefits of modern MCS is desirable. As asserted by Goldkuhl and Nilsson (2000), the continuous expansion of knowledge is vital for the performance and development of enterprises. If knowledge is not constantly updated, an enterprise's performance is hindered.

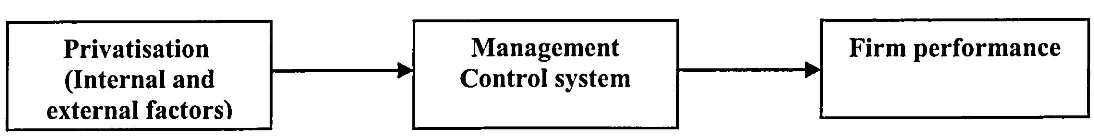

Figure 4.2: Relations among privatisation, general contextual factors, MCS practices, and firm performance

DiMaggio and Powell, (1983) reveal institutional isomorphism as an example of a process by which accounting innovations required for privatisation are transferred. It involves the adoption of accounting practices adoption, evaluation and performance policies, and budgetary plans. For example, after privatisation, the GOE has transformed from being a controller who tightly controlled Egypt's economic activities, to being a regulator, who provides the legal and political frameworks upon which organisations function. This resulted in a dramatic change in the Egyptian accountancy profession, as the profession moved from being a powerless group towards being a change agent promoting standards similar to that of the western countries (Hassan, 2008). In addition, accounting transfer can be facilitated by the formation of joint ventures with foreign enterprises. For example, the Chinese government's decision to form joint ventures with foreign companies was motivated by the objective of upgrading the technology of the SOE by introducing more sophisticated management and accounting techniques (Firth, 1996). In this regard, studies suggest that US firms are more persistent in sharing their management styles, home-country practices (Björkman and Xiucheng, 2002) and structures (Firth, 1996) than other countries like, for instance Japan.

Internal contextual factors	**Expected changes after privatisation**
1. Organisational capability to learn	-The extent of MCS knowledge, the interest in and approval for use, and the expertise of managers affect the design and operation of MCS. -A high degree of organisational capacity to learn facilitates MCS change
2. Introduction of new technology	-Firms that operate with computerised technologies mostly use new MCS practices; they are also stimulated to use budgets as control devices.
3. Change of strategy	-Product differentiation strategies: encourage firms to adopt new MCS techniques to serve customer preferences and enhance firm performance; employees need to adopt a customer-oriented attitude and should be given empowerment. -Traditional MCS practices do not allow the pursuit of customer satisfaction and quality improvement -Low price strategy leads to the downsizing of operations and the reduction in non-value-added activities; it also motivates cost control using both traditional MCS practices and ABC
4. capability to undertake action	-High organisational capability is associated with rapid organisational and MCS change in new joint-venture firms -Possession of the required skills, resources and determination play a significant role in MCS change -The behaviour of managers combined with their knowledge and experience with MCS influences the strategic course and ultimately firm performance

Table4.2: The implications of associated internal factors and expected change after privatisation.

In summarising the previous discussion, the literature presented illustrates the impact of contextual factors resulting from privatisation on MCS change and firm performance.

Moreover, it is asserted that there is a positive relationship between the improvement of MCS practices and the increase in firm performance. The relation between MCS practices, the contextual factors, and firm performance is showed in Figure 4.2., which contains a list of the internal factors discussed in this section together with the expected MCS change after privatisation (Waweru et al., 2004; Haldma and Lääts, 2002; Libby and Waterhouse, 1996). Up to now, the internal factors that affect MCS change have been described, and the way in which MCS practices are expected to develop as a result of privatisation has been covered. The literature discussed in this section provides a checklist as to how MCS practices should evolve, and what role(s) internal factors play in the process of privatisation transition. By studying the role and effects of the above-mentioned change drivers, this researcher conducts an in-depth study on the individual MCS techniques of the Egyptian construction enterprises, in order to obtain a wider picture of the changes made.

4.5 Towards the conceptual framework of the study

In this section, the conceptual framework which formed the basis upon which the study data was collected and analysed is presented. The previous discussions in chapters 2, 3 and 4 articulated that the adoption of the institutional theory and the contingency theory is a holistic approach for a study of the impact of privatisation on firm performance. Institutional theory is concerned with the impact of privatisation in stimulating changes in the role of the state, culture, TU, aid agencies, and economic conditions in the external contextual organisational environment. The institutional theory's contribution is restricted in giving a better explanation of the external actions outside the studied firms, which is aimed to stimulate the internal contextual factors within the studied firms. At the same time, the contingency theory provides an explanation elaborating privatisation as a process and means for stimulating MCS changes, particularly in transferring the new technology and knowledge. The literature presented in this study describes the influence of contextual factors on MCS change. It is claimed that there is a positive relationship between the improvement of MCS practices and the increase in firm performance.

As already mentioned, previous studies on MCS have thus far been principally conducted in the West. It is generally thought that accounting is a neutral practice that can be developed and implemented in any part of the world, regardless of country-specific differences in political, socio-economic, cultural and institutional environments.

Because of this assumption, accounting research in LDCs has been conducted on the basis of Western models and perspectives (Tinker, 1980). Consequently, Western MCS have been introduced in LDCs. Unfortunately, this approach has caused problems in the ontological sphere (Hopper et al., 2004b). Western theories are not appropriate for application in LDCs because of the political, cultural, and socio-economic differences between the developing countries and the West (Hulme and Tuner, 1991). Therefore, it is crucial for future research to adopt an approach that addresses those contextual circumstances relevant to LDCs. In most current studies, the issues that influence the functioning and nature of MCS resulting from privatisation in LDCs have so far been neglected.

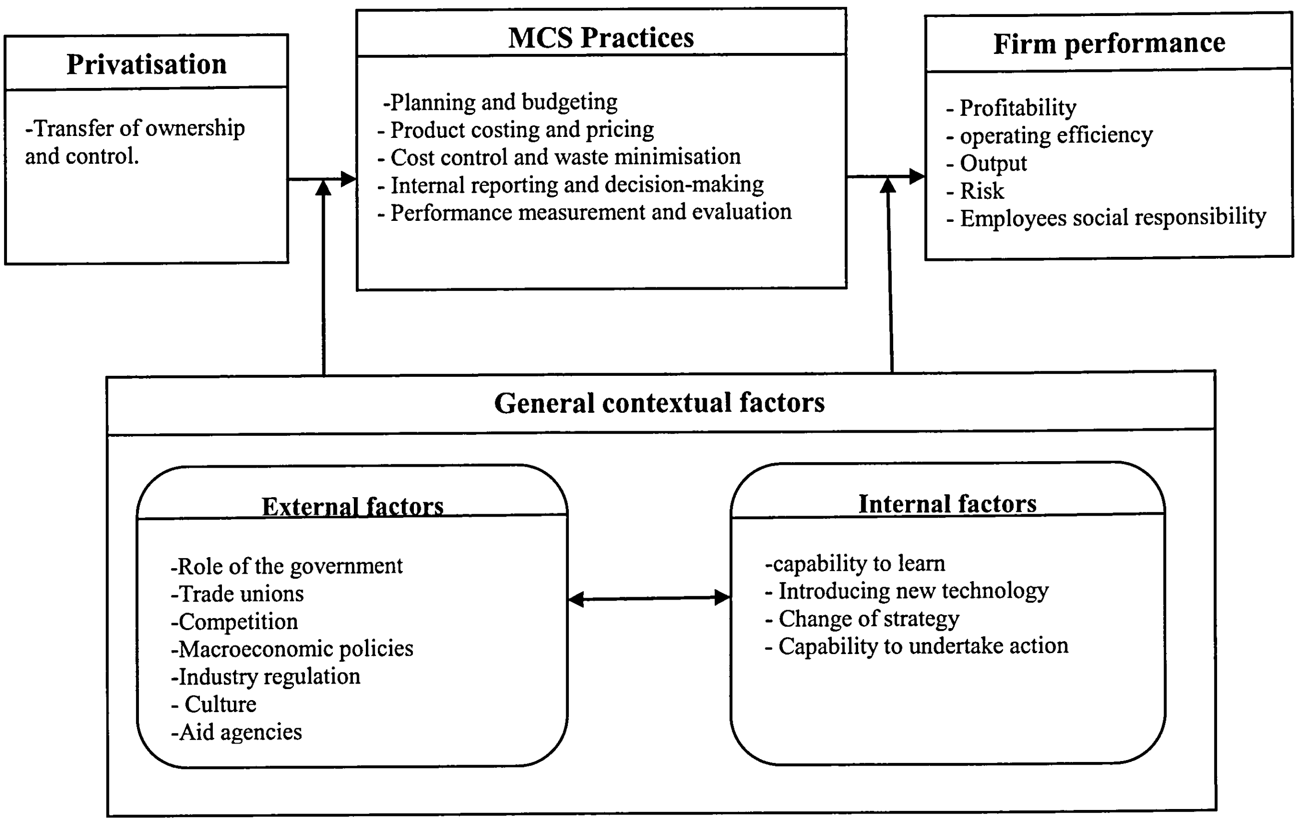

Figure 4.3: the conceptual framework of the study

A conceptual framework that includes the wider context of LDCs is therefore indispensable. In designing the research framework, the following criteria were considered: the model has to meet the objectives of the study as described in chapter 1 and it has to be suitable for application in the privatised Egyptian business environment and its socio-economic and political contexts. The pilot study indicated that these criteria were valid. This study focuses particularly on the matters playing a role in the actual privatisation practice, and includes the external and internal contextual factors that shape MCS, as a result of privatisation policy, and the influence on firm performance. In short, the aim of this research is to describe and analyse the effect of privatisation on firm performance in the Egyptian construction industry, while taking into account the contextual factors identified and addressed in the previous sections. MCS change, firm performance and the contextual factors are approached with the aid of the conceptual framework of the study (see figure 4.3).

On the basis of the study's conceptual framework, privatisation is likely to improve firm performance by offering effective institutional capacity to ensure that the extent, sequencing, and coverage of privatisation are consistent with the available resources in terms of management competence and capital provision, in order to provide the best chance of a privatisation succeeding. In addition, secured administrative competence and probity must be implemented or developed to ensure that the privatisation process is fair, transparent and efficient and complemented by policies that promote competition and regulatory capacity. Consequently, the improved competition and the transfer of property rights to the private sector is assumed to provide better MCS practices that ultimately promote development goals and improve firm performance.

The new private ownership should be well informed, pursue wealth maximisation goals, and possess a greater ability to monitor firms through MCS practices than it was under public ownership. According to the literature, privatisation is expected to provide higher output, a better supply of quality goods and services at efficient prices, increased investments, the advent of know-how and modern technology, higher dividends and profits, improved employment social responsibility and salaries, while reducing credit and liquidity risk. MCS should become closely linked to economic rewards and the efficient allocation of resources. Moreover, more efficient reporting, effective decision making processes and overall achievement of firm objectives are also expected. However, the above expectations are likely to be mediated by the external and internal factors. Thus, less pressure from politics, bureaucracy, Trade Union (TU) and effective and transparent regulation are required. Hence, the government should help in creating a favourable market environment, should bestow unconstrained access to capital, create efficient capital markets, maintain a fair taxation system, reduce socio-political instability and implement an effective structural adjustment programme (SAP). If all of these conditions are met, one can legitimately expect that privatisation will enhance firm performance.

The data collection process inspired by the study's conceptual framework centred on an investigation of how MCS change has developed after the introduction of privatisation, and the role of the contextual factors in this process. In addition, an overview of how firms deal with their investment and business plans would also be obtained. The way in which firms approach these plans can be partly explained by the contextual factors. As previous studies conducted in LDCs have indicated, both external and internal contextual factors are believed to affect MCS practices and firm performance. These contextual factors explain inconsistencies in the theoretical arguments with respect to the outcomes of privatisation in LDCs. Moreover, it is hoped that the study would obtain a good picture of the practical problems and challenges faced by Egyptian enterprises during the transition period.

Finally, it is worth mentioning that researchers face a number of complicated positions and meanings regarding their research activity. Consequently, research design is affected by questions regarding the nature of knowledge and the nature of reality. The answer to the question of knowledge affects the implication of the way that methodology is acquired. Methodology, then, is a way of gaining knowledge about the world; trying to discover the task of finding out what is believed to be true. Departing from such discussion, the research methodology and design are discussed in the next chapter.

4.6 Summary

The literature demonstrates that the external and internal businesses environments are continuously changing in such a way that enterprises have to make the requisite adaptations to their MCS. The development and modernisation of these control systems has inspired the development of new MCS practices, equipping enterprises more efficiently to be able to gain competitive advantage and increase their firm performance (Adler et al., 2000). Change can be conceptualised as the degree of changes adopted in a given period or the extent to which changes are being integrated into operations (Libby and Waterhouse, 1996). The previous studies on MCS change have mostly been conducted in the West, and are mainly based on quantitative analysis. Thus far, the documentation on post-privatisation MCS change in the context of LDCs has been very narrow.

This chapter has provided a relevant body of literature that will enable the researcher to conduct the research from the perspective of LDCs, while including external and internal contextual factors. These factors are mainly explained by contingency theory and institutional theory. The literature presented in this chapter explains how the internal environment inspires MCS change. In this regard, it is asserted that improved MCS will ultimately lead to improvements in firm performance. Moreover, the details of MCS techniques on which the conceptual framework of the study is based are described. This framework serves as an instrument for data collection and analysis. The definition of MCS and the formulation of new MCS techniques have revealed the significance of recognising the role of employees in firms. If employees are given more incentives and influence, for instance, additional training, benefits and compensation, their job satisfaction increases, which sequentially leads to a customer-oriented approach and improves overall firm performance.

Finally, the conceptual framework was introduced, based on the insights attained from the literature, in addition to the results of the pilot study. MCS change is inevitable in privatised firms and is strongly related to external and internal contextual factors. The existing documentation on MCS change and firm performance in privatised firms in LDCs is limited. In order to gain more insight into this particular field, this study therefore strongly recommends that more research should be conducted in LDCs, preferably by means of case studies.

CHAPTER 5
Research methodology

5.1 Introduction

The word "research" has a Latin origin meaning "to know". Research is a systematic and repeated process that identifies and defines problems, within certain limits. It uses well-defined methods to collect data and analyse results. The word "methodology" refers to the theoretical analysis of the methods suitable to a field of study and principles particular to a branch of knowledge. Methodology includes the following concepts that relate to a particular discipline or field of inquiry:

(i) a collection of theories, concepts or ideas;
(ii) a comparative study of different approaches;
(iii)a critique of the individual methods (Creswell, 2003).

The term "research methodology" refers to the strategy followed in order to answer the questions posed by the particular study.

There are different layers that link the basic assumptions made to the methodological techniques employed. These layers range from the ontological and epistemological layers to the methodological techniques used to examine the research theoretical perspectives. These linked layers mean that "*justification of the choice and particular use of methodology and methods is something that reaches into the assumptions about reality that one brings to his/her work*" (Crotty, 1998, p.2). The research process includes five layers known as the research process 'onion'. The first layer is the research philosophy, second, the research approach layer, third is the research strategy layer, fourth, research time horizons and finally, the fifth layer is data collection methods. Each layer involves a different set of choices that the researcher is required to make in order to undertake his/her research (Saunders et al. 2003).

The purpose of this chapter is to critically assess the research design adopted for this study. The relevant issues required for the design of the research process are evaluated and are arranged into eight main sections as follows; a brief overview of research methodologies in social science (5.2); justification for using mixed methods (5.3); the research strategy employed by this research (5.4); the research protocol (5.5); the data collection approach (5.6); data analysis (5.7); and summary (5.8).

5.2 Brief overview of research methodologies in social science

To answer the questions raised by any study, an appropriate methodology must be selected and suitable tools for data collections (and analysis) have to be chosen. There are two main approaches which inform the gathering of data in any research; namely the quantitative approach and the qualitative approach.

5.2.1 Quantitative approach

A quantitative research approach is generally located in the positivist social sciences paradigm, which mainly reflects the scientific method of social sciences (Jennings, 2001; Creswell, 1994). The positivist paradigm espouses a deductive approach to the research process. It thus begins with theories and hypotheses on a particular phenomenon, collects data from the real-world site and subsequently analyses the data statistically to reject or support the initial hypotheses (Blanche and Durrheim, 1999; Veal, 1997; Welman and Kruger, 2001). Researchers who implement a deductive approach draw on theory to direct the design of the study and the subsequent explanation of their results (Neuman, 1994). The aim is to verify or test a proposed theory, rather than to construct one. Therefore, it can be seen that the identified theory proposes a framework for the whole study, also serving as an organising model for the research hypotheses and for the whole data collection process.

The whole research procedure is objectively constructed, and the results are regularly representative of the population being studied. The major advantages of the quantitative approach are control and precision. A high level of control is maintained throughout the design and sampling process, and precise quantitative measurements are obtained. There is an additional advantage in relation to testing guides to statements regarding causation, given that the systematic manipulation of one variable can be revealed to have a direct causal effect on another when other variables have been controlled or eliminated (Blanche and Durrheim, 1999; Babbie, 1995).

One of the limitations of quantitative research, as argued by many researchers, is that the scientific quantitative approach affects the human ability to think (Massey, 2003;

Walle, 1996). Gilbert (1993) asserted that the mechanistic personality of the quantitative approach exclude notions of moral responsibility, choice and freedom. Objectivity can become an end in itself, to the detriment of the process being a human attempt seeking to explore social phenomenon. It fails to comprise human beings' unique ability to construct their own meanings and interpret their experiences (Massey, 2003; Gilbert, 1993).

In terms of the subject matter of this research, most of the existing research papers reviewing the effects of the privatisation program all over the world followed a standard quantitative technique that was developed to examine the impact of privatisation on firm performance(see appendix A). The standard technique was initiated by Megginson, Nash and Van Randenborgh (MNR, 1994). The MNR method compared mean performance results for three years prior to and three years subsequent to privatisation, using a data set including 61 firms from 32 industries within 18 countries. The MNR studies varied in terms of the financial performance measures applied, and showed that privatisation results led to widely inconclusive results, as previously mentioned in Chapter 2 of this research.

Typically, these studies attempted to model the relationship between dependent and independent variables, through assessing the effects of each independent variable, where the dependent variable is the firm performance and change in ownership is the explanatory variable. As evidenced by Parker and Kirkpatrick (2005), extensive critiques can be found in the quantitative studies applied in assessing post-privatisation firm performance. Firstly, the extent to which these results can be generalised across the developing countries is not clear, given that most of the studies focusing on developing countries were also mixed with data from developed countries. Secondly, the impacts of ownership, external regulation and competition on firm performance were not independently modelled, leaving unaddressed the possibility that gains attributed to privatisation may actually have resulted from other unrelated structural reforms. Most of the past studies which applied MNR methodology tended to be at the high level of international comparison, and hence suffered from possible data heterogeneity problems. Furthermore, most of these studies were reliant on creating a data set from a mixture of sources, with consequent potential data inconsistencies due to different accounting practices used by different countries.

5.2.2 Qualitative approach

The qualitative approach is generally located in the interpretive paradigm. A qualitative approach tends to derive from recognition of the importance of the experiential life of human beings (Blanche and Durrheim, 1999; Babbie, 1995). Gilbert (1993) asserted that the qualitative approaches offer possibilities that can lead to the discovery of a deeper understanding of meaning. Easterby-Smith et al. (2002) describe the task of the qualitative researcher as being to capture what people do and say, how they understand the complexity of their world, and to interpret events from the views of the participants. In this regard, Jennings (2001) stated that the qualitative approach collects data as text-based units, which represent the context attributes and social reality of the studied phenomenon.

Researchers employing a qualitative approach use data collection methods such as in-depth interviews, observation and/or focus groups (Jennings, 2001). The qualitative approach is subjective, since it relies on the discourses and texts of participants and entails small numbers of participants being involved in the research process (Gilbert, 1993). Due to the small number of participants, the qualitative approach does not presume to represent the wider population. As such, qualitative studies are not assumed suitable for generalisation, but rather adopt a more descriptive and narrative style aimed at a better understanding of the research questions at hand (Easter-Smith et al., 2002; Blanche and Durrheim, 1999).

Perhaps one of the major disadvantages of qualitative research is that it is time consuming. The researcher has to spend a large amount of time in the research setting in order to properly examine the identified subjects (Babbie, 1995).

Problems of adequate reliability and validity are criticisms often associated with qualitative methods. Due to the subjective nature of qualitative data and its source based on single contexts, it is difficult to apply conventional standards of validity and reliability (Gilbert, 1993; Creswell, 1994). On the other hand, it is argued that the subjective nature of a participant's perspective, richness, and understanding are also important advantages gained by qualitative study. However, qualitative researchers should also be able to demonstrate the reliability and validity of their results in order to meet the same criteria as that associated with quantitative research.

While reviewing the qualitative approaches adopted within the research area, Tsamenyi (2010) recently called for the shift in the research of post-privatisation performance and MCS measures from the existing short-term quantitative orientation to that of a long-term qualitative approach focusing on the relevant general contextual factors. This argument has previously been supported by other researchers including Prizzia (2001) and Parker and Kirkpatrick (2005) among others, who argued for a balanced socio-economic and MCS consideration alongside the use of financial indicators.

As stated by Ghauri *et al.* (1995), the selection of which method to use depends on the particular research problem and questions posed by the researcher. The selection of an appropriate method also depends on the nature of the potential study and whether a sufficient amount of literature is available to investigate the research topic. If this is not the case, additional studies need to be conducted to fill this gap.

There appears to be a lack of literature on MCS change and the influence of contextual factors within LDCs during the transition period following privatisation. This is why a number of researchers have called for a stronger detailed focus on qualitative case studies dealing with these issues. By choosing a third world country as a research setting, this study aims to make a contribution to filling this gap in the research area.

After conducting a critical overview of the two available approaches to research in social science, the researcher considered the importance of adopting a mixture of both approaches in order to answer the main research question presented in Chapter 1. The main arguments against mixed methods are based on the fact that one cannot separate methods from paradigms, and data cannot be divided into a dichotomy of quantitative and qualitative data. On the other hand, Sale et al, (2003) indicate that combining qualitative and quantitative methods in a single study is a widely accepted practice in many areas of research, unless they are not being used to measure the same variable. As per Clarke and Yaros, (1988), mixing research methods is helpful in some areas of research, because the complexity of some studies may require analysis of data from various perspectives.

In this research, the research sub-questions require the use of both methods. Quantitative methods alone cannot address some of the important aspects of the issue at hand, in that the research is interested in issues which require detailed descriptions and understanding. For example, general contextual factors and MCS changes can be identified, given that the two methods do not study the same variable.

The next section presents the researcher's justification for using mixed methods generally in social science, and specifically in relation to this study.

5.3 Justification for using the mixed method

A researcher faces a number of complex issues and problems in relation to his/her research activities and plans. The design of research is affected by issues relating to the nature of reality and the nature of knowledge. These philosophical questions must be addressed explicitly, because they determine the choice of research tools and strategies. According to Denzin and Lincoln (1994), paradigm is a set of serial beliefs and actions which consist of three main inter-related elements: ontology, epistemology and methodology. Therefore, matching particular ontology and epistemology with suitable methodology practices is a common tradition in social science (Neuman, 1994; Decrop,. 1999).

However, more recently, researchers have demonstrated a growing recognition of the benefits of mixed methods research. Both Bowen (2003) and Massey (2003) reported that the mixed methods approach represents a poly-vocal approach to research, where the use of methodological strategies means that the researcher does not necessarily favour a particular location of the social world over another. Researchers continuously move between the research questions and research objectives, regardless of the methods adapted for the sake of achieving the research aim.

Even though there are some paradigmatic conflicts between quantitative and qualitative research, some researchers justify the usage of mixed methods on the basis that there are some common beliefs between the two paradigms. For instance, both qualitative and quantitative researchers use empirical observations to meet research objectives. Sechrest and Sidani (1995) noted that the two methods "*describe their data, construct explanatory arguments from their data, and speculate about why the outcomes they observed happened as they did*" (p. 78). In addition, both types of research incorporate safeguard activities in order to minimise the lack of trustworthiness that potentially exists in all research studies (Sandelowski, 1986). The two paradigms have a common objective which understands the world in which we live (Haase and Myers, 1988). Both paradigms share a common commitment to understanding and improving human welfare, and to apply a common goal of spreading knowledge and practices (Reichardt and Rallis, 1994). Today, research is becoming increasingly dynamic and complex. Consequently, many researchers need to complement one approach with the use of another in order to achieve a solid understanding of their research problem, and to provide high-quality research by means of triangulations (Johnson and Onwuegbuzie, 2004). When the two approaches are combined together, the advantages of each methodology complement those of the other, resulting in a more solid research design which yields more reliable and valid results (Decrop, 1999).

Therefore, by using a mixed method methodology in this study, the researcher combines both approaches in order to answer the specific research questions of the study. The shortcomings of the individual methods are minimised, and threats to internal validity are recognised and addressed.

This aim of this study is to assess the impact of privatisation in terms of changes in MCS and firm performance of privatised construction firms in Egypt, both from a firm and a socio-economic perspective. A mixed methods design is employed, by means of which different but complementary data is collected. In this study, some financial indicators for inspecting the financial, operating performance, output, and risk as well as employees social responsibility of privatised firms are quantitatively analysed, in order to investigate whether there was any change in the SOEs performance after privatisation. Concurrent with this, qualitative semi-structured interviews and historical secondary sources are used to explore MCS changes and general contextual factors.

In summary, the benefits of both methodologies were considered, and the researcher considered that combining elements of both quantitative as well as qualitative data was more beneficial, thus making triangulation possible. In short, through integrating both approaches together one is able to determine how general contextual factors affected the relationship between privatisation, MCS practices and firm performance in the Egyptian construction industry, and it is possible to gather the requisite data to ensure that the questions of the study are successfully answered.

5. 4. The research strategy used by the study

In accordance with Yin (2003), an important criterion to be considered when making a choice between various researches strategies is the type and nature of the research questions to be addressed. The 'what' questions are either about prevalence or are exploratory and concerned with incidence or frequency, while the 'why' and 'how' questions are more explanatory and are concerned with operational links (Yin, 2003). According to Meredith (1998), 'what' questions relate to identification, 'why' questions relate to understanding the phenomenon and 'how' questions relate to expectation or explanation. Case study research is specifically suited to answer 'how' and 'why' questions (Yin, 2003; Meredith, 1998).

This study addresses an area that has been neglected to date by the existing literature. It focuses on unresolved matters concerning privatisation and its impact on MCS changes and firm performance in LDCs, and the influence of general contextual factors. In studying this relationship, the researcher is interested in analysing MCS change and firm performance to explain how the MCS and firm performance can be changed, and to understand why the theoretical expectations of these variables are achieved or why not, with the inclusion of the general contextual factors as mediator variables.

Meredith (1998) defines a "case study" as follows:

> "A case study typically uses multiple methods and tools for data collection from a number of entities by a direct observer(s) in a single, natural setting that considers temporal and contextual aspects of the contemporary phenomenon under study, but without experimental controls or manipulations" (Meredith, 1998 p.442-443).

In accordance with the above definition, a case study is limited to a single setting. When more than one setting is studied, this is referred to as a "multiple case study". In this study, the researcher uses the term "case study research" to refer to the research strategy of conducting three case studies. This definition allows the researcher to add another research strategy to the case study method; historical descriptive analysis. Hedrick et al (1993) identified that historical methods can be used in a study whose questions focus on 'why' and 'how'. The historical descriptive analysis was applied jointly to the case studies to generate supplementary information, given that a case study can make use of multiple strategies to investigate a research phenomenon.

The historical methodology was applied in order to answer the research sub-question; *'Why and how the GOE implemented the privatisation policy'*. The descriptive historical analysis focused mainly on the socio-economic, political and institutional transformations seen in Egypt after the application of the privatisation policy. The purpose of using this method was to provide a general understanding as to why and how Egypt instituted its privatisation policy.

The use of a historical methodology has several advantages which includes helping researchers to verify and uncover data from the 'dead' past, how they arose and how their characteristics unfolded through time, understanding the sources of contemporary problems, identifying past factors that play a role in present situations, making use of primary and secondary documents and physical and cultural artefacts as the main source of evidence, and making a detailed qualitative analysis of complex issues surrounding human behaviour, its strength, unpredictability and weakness (Mason et al, 1997; Neustadt and May, 1986; Yin, 2003). In short, the descriptive findings would help to provide a general understanding of 'why' and 'how' Egypt applied its privatisation policy, and how this policy has affected the socio-economic environment, particularly with regard to the previous role of the GOE in terms of promoting development and providing social welfare programs.

The type of research opted for is explanatory and descriptive in nature. The research was conducted by means of multiple case studies dealing with the specific circumstances of the individual cases identified and studied. The research was intended to be holistic, in that it would analyse the external factors influencing the enterprises, and their internal practices. By using such a strategy, one can triangulate different theories to help bring about an understanding, and to explain and describe the research questions raised by the study. In accordance with Ryan et al. (1992), the theory value of a case study approach is evaluated by the extent to which it explains the practices. In order to properly explain the case study investigations, the theory is therefore of significant importance.

It is the overall purpose of the research to widen the currently limited literature available which deals with the field of privatisation, especially on the subject of privatised SOEs in LDCs. Based on the findings of this study, one is able to explain and analyse the circumstances in privatised enterprises in LDCs with respect to firm performance and MCS changes. The case study approach explains how various contextual factors have influenced the result of the privatisation process through the transition period. As mentioned before, privatisation theories habitually ignore these socio-economic contextual factors in relation to LDCs.

A variety of researchers argue that case study research is particularly strong when it comes to building a theory (Meredith 1998; Voss, Tsikriktsis, and Frohlich 2002). Wacker (1998) claims that, "*Theories carefully outline the precise definitions in a specific domain to explain why and how the relationships are logically tied so that the theory gives specific predictions*" (p.363-364). Theory therefore consists of four components; definitions of variables and terms, a domain (that is the exact circumstances in which the theory can be applied), a set of relationships, and specific expectations. These components direct the building of the theory. In order to make meaningful logic of data generated by a study, it is necessary to use a conceptual framework. The rationale behind use of this conceptual framework is to identify linkages between key variables and to recognise 'why' these relationships exists (Handfield and Melnyk, 1998). In other words, when designing a case study based piece of research, one must address the development of a conceptual framework in which the main variables and interactions between these variables can be studied (Miles and Huberman, 1994). In this regard, Yin (2003) also argues that case study research should rely on a clear set of propositions and a preliminary theory to direct the data collection. Consequently, the basis for this research design is the conceptual framework as set out in Chapter 4.

As opined by Meredith (1993), a conceptual framework is distinguished from a conceptual model by means of its explanatory power, and can be regarded as a "pre-theory". Once the framework satisfies the requirements of relevance, validity, and testability to a larger extent it develops into a theory. These particular insights helped to guide this research design. In constructing the study's conceptual framework through reviewing the literature as presented in first four chapters, the researcher also conducted a pilot study that applied the conceptual framework to one selected case. The pilot study was helpful in formatting the research protocol, in testing the adequacy of the developed conceptual framework, in setting the selection criteria for the cases to be sampled, and also provided an opportunity to improve the research design.

For example, the pilot study helped the researcher to decide which aspects of MCS required emphasis, which matters were relevant to the study topic, the way in which firm performance evolved and MCS change, and which factors influenced the result. The data collected during this stage helped the researcher to understand the actual situation (domain) in Egypt. By using a pilot study, the researcher learned effective ways of approaching potential firms, made a selection of relevant MCS practices, identified the contextual factors, refined the interview questions, and organised an appropriate appointment schedule for the interviews with the selected participants. Thus, the pilot study enabled the researcher to make the data collection more focused. In short, based on the pilot study results, the conceptual framework was refined, and the researcher was able to improve the way in which the main fieldwork was carried out.

In conclusion, as per Vallis and Tierney (1999), both quantitative and qualitative methods can be applied to multiple or single case studies. Within the design of multiple case studies, multiple methods of data collection are used and several units of analysis are then appropriate. Rather than working within one paradigm, the case study approach serves as a bridge between the paradigms (Luck et al, 2006). The bridge provides the researcher freedom regarding the choice of methods to be used (Miller and Fox, 2004). In relation to the mixed-methods approach applied by this study and the integration with historical descriptive strategy, it is argued that the case study approach facilitates the integration of different research strategies (Jones and Lyons, 2004, Marshall and Rossman, 1995). Case studies may use several methods of data collection to understand and explore every case unit (Creswell 1994), which allows a rich description of each case (Dempsey and Dempsey, 2000; Pegram, 1999). The flexibility of this method and its practical application are the main reasons for using case study as the principle research strategy employed in this research.

In addition to flexibility and practicality as identified above, there are four further reasons the researcher uses to justify the utilisation of a case study approach. Firstly, this method is effective in investigating a contemporary phenomenon in the context of real life, especially when the boundaries between research variables are not clearly defined (Yin, 2003). In this regard, the case study approach allows the researcher access to various data sources, and to deal with a wide variety of materials, for instance, historical documents and transcripts of interviews. The method also allows a systematic review of the context of an organisation, people, policies, and structure (Birnberg et al, 1990).

Secondly, the case study is an appropriate method to better understand the lesser known areas where little research has previously been conducted. Thus, this strategy allows a thorough review of the implementation and development of MCS practices in privatised enterprises. Research based on privatisation conducted in LDCs is scarce, and the existing discussions have brought about inconclusive results. Therefore, there is a need for this type of research in this area.

Thirdly, investigating MCS changes following privatisation through firm level case fieldwork gives a better opportunity to explain the observed differences in practice and to gain a better understanding of the process by which MCS develops. In addition, the case study method is particularly useful in determining a complete picture of how companies have used their control systems, why they have chosen them, for what purpose and under what circumstances (Jones and Sefiane, 1992, Hoque, 1993, Yin, 2003).

Fourthly, the case study method is used to investigate various matters, including those that are difficult to measure via the use of other strategies (Langfield-Smith, 1997).

In short, by using such a strategy, more comprehensive quantitative and qualitative data could be collected, facilitating the integration with the historical descriptive method, enabling detailed in-depth analysis, and contributing to a better understanding of the phenomenon covered by this study.

5.5 The research protocol

By applying multiple cases it is possible to verify a logical chain of evidence (Miles and Huberman, 1994; Yin, 2003). Each case study must be performed in the same way in order to properly assess whether relationships as theorised in advance actually exist in the companies, and to define recurring patterns. In order to ensure the case studies were applied in the same way, the researcher had to design a research protocol to justify the validity and reliability of the research.

- *Reliability* refers to the fact that procedures used in a study such as the data collection procedure can be repeated with the same results (Yin, 2003).

Validity can be represented by the following three elements:

- *Construct validity* refers to the creation of accurate operational measures of the variables being studied;
- *Internal validity* refers to the creation of a causal relationship, whereby certain conditions are revealed to be directly linked to other conditions, as opposed to just arising from spurious relationships. Internal validity is only valid for causal or explanatory case studies, and not for exploratory or descriptive case studies.
- *External validity* refers to the launching of the domain in which a study's findings can be generalised (Yin, 2003). The research protocol contains the rules and general procedures for using the research instrument(s), a guide for case study report, and an indication of the sources of information in the interviews (Yin, 2003).

In the remainder of this section, the selection of the research site, the selection of individual cases, gaining access to the participants, the selection of participants and the measurement used are analysed. This shows how the study elaborated its research protocol.

5.5.1 Selection of research site

When implementing the case study method, the choice of a research site is a primary consideration (Yin, 2003). In view of the questions posed by the study, Egypt was selected for a number of reasons. Egypt is a country in the Middle East and North Africa region (MENA), a part of the world that has been neglected in the existing literature, and Egypt is as well a less-developed country. The particular interest in developing countries stems from the fact that they were forced to start implementing privatisation by international development agencies such as the World Bank and the IMF, rather than by choice. Based on the World Bank data base, cited in Boubakri et al, (2008), the total number of transactions within developing countries amounted to 3,316, involving 2,919 privatised firms from the period 1988-2005. The MENA region represented 18% of these transactions, with 20% of these transactions achieved in Egypt (see table 5.1). Therefore, Egypt as country was identified as a good example for and representation of other LDCs that applied privatisation programme.

Barber and Lyon (1996), indicate that matching sample firms to control factors based on industry and size leads to valid and reliable specified results. For that reason, the sampled case studies are all enterprises operating in the same industry; the Egyptian construction industry.

Geography	Deals	Firms	% share sold	Per deal	Proceeds% foreign	Total % of GDP
LDCs	3,316	2,919	63.78*	84.00	36.00*	1.24*
MENA	600	477	49.34**	98.36	32.68**	0.61**
Egypt	120	108	57.35	57.60	80.28	1.16

*Average percentage of the whole countries in LDCs
** Average percentage of the whole countries in MENA

Table 5.1: The geography of privatisations in developing countries

The construction industry was chosen as an indicator for this research for many reasons. Firstly, this industry gives a good indication as to the degree of economic development and the growth rate that a country is experiencing. Secondly, it is the foundation upon which many other industries are based, principally the steel and cement industries, because they are the main suppliers of the necessary raw materials to the construction industry. Thirdly, the chosen industry serves different domains including infrastructure, housing, tourism, and industrial facilities, which therefore also provides an indication of the performance of other sectors in Egypt such as the tourism and other industrial sectors. Fourthly, as indicated by Parker and Kirkpatrick (2005), existing industry-level post privatisation studies concerning developing countries have previously largely centred on the telecommunications industry. Therefore, the researcher identified an urgent need for comparable studies of other industries in developing countries, in order to bridge this gap in existing knowledge.

5.5.2 Selection of case firms

When using multiple case studies, case selection is of fundamental importance. Cases should be selected via clearly specified criteria by means of replication logic. Yin (2003) identifies that replication logic means that the cases must be selected either to produce contrasting results but for predictable reasons (theoretical replication) or to predict similar results (literal replication). Replication logic is employed in this study, as each case was selected carefully on account of the variables assumed to influence the degree of MCS changes and firm performance. In the remainder of this sub-section, the selection criteria are discussed.

To being with, a list of all construction companies privatised since 1996 was obtained. By selecting firms that had been privatised relatively early, the researcher hoped to obtain the optimum amount of data on post-privatisation firm performance and MCS change. It was supposed that the longer the company stayed in operation after being privatised, the easier it would be to measure the trends in firm performance and to observe MCS change. Therefore, the first selection criterion was that the firms to be studied should be long-standing privatised construction firms. Since the start of the implementation of the privatisation programme in Egypt in 1996, fifteen construction companies had been privatised by the end of July, 2009. Of these fifteen companies, ten were privatised through public offerings, ended either in majority or minority, one was sold to an anchor investor, and four were liquidated. The sales value of these companies combined reached LE 1.2 billion over the privatisation period to 2009 (MPO, 2009).

Of the eleven companies which were still operating after 1996, six companies were initially included in this research in accordance with the first selection criterion. These six companies represented the only privatised SOEs in the construction industry that were offered for sale in 1996. The other five companies were privatised after 2005. Therefore, the researcher identified that these six companies represented the sum total of the first companies privatised in the industry, and were the firms which had experienced the longest time span in terms of interaction with the privatisation policy.

The second selection criterion used was the size of the organisation. On the basis of various theoretical notions, it was assumed that the larger the organisation, the higher the degree of use of sophisticated MCS (e.g. El-Ebaishi et al., 2003), and vice versa. In order to control the impact of size on the degree to which MCS was used after privatisation, the biggest companies of a similar nature would be selected. According to the Egyptian Federation for Construction and Building Contractors (EFCBC), construction companies in Egypt are classified based on seven grades by using eight criteria[6]. Firms are categorised as large firms (grades 1, 2 and 3), medium firms (grades 4 and 5), and smaller firms (grades 6 and 7). Given that one company from the initial sample was graded 7, it was eliminated from the sample since it would be expected to perform small-scale construction activities and unsophisticated MCS activities. After applying this second criterion, five similar medium privatised construction firms (grade 4) were identified and selected.

[6] The eight criteria are: (1) Paid-in capital; (2) years of experience of the company; (3) number of technical staff; (4) financial structure; (5) administrative and legal structure; (6) the highest value of the work carried out during the last five years; (7) the value of the largest operation successfully completed during the five years prior to the submission of the application; and (8) the upper limit of the allowable value of the tender (EFCBC, unpublished report, 2008).

The final selection criterion was that firms had to be willing to co-operate and give full access to their data. Of the five selected firms, two companies refused to co-operate, and advised that they had a tight work schedule during the period when the field work was conducted.

After the application of the three criteria, the final sample of the study included just three construction companies. Only those companies who complied with the selection criteria were asked to participate in this research. Studying more than one case strengthens the validity and robustness of the study findings (Miles and Huberman, 1994). In this way, the researcher was able to conduct important cross-case comparisons during the data analysis phase.

5.5.3 Gaining access to the participants

Based on the experiences of qualitative researchers, access to fieldwork settings was a major consideration in planning the study. After the application of the three criteria used in selecting the cases, the final sample of the study included just three construction companies. Only those companies who complied with the selection criteria were asked to participate in this research. These three companies were then approached by telephone and other relevant criteria of the research were discussed. After giving their consent to participate in the study, each company was visited for an introductory meeting to further discuss the research

Access to commercially sensitive information pertaining to the Egyptian construction process is normally difficult. As acknowledged in other LDC studies, qualitative data access is very complicated. As such, the use of early planning and arrangements and of utilising friends and contacts within target organisations as tools for overcoming the problems of access are therefore advocated. Since the researcher has a friendly relationship with the Financial Manager working in one of the cases, the researcher asked him for a help in the access negotiations, not only in his company but also in the other cases depending on his connections.

Here, the specific request to the company was honest and straightforward: an opportunity to observe and to interview some employees for a PhD study. The participating respondents agreed to do so mainly because of the importance of the researcher's friend who was used to negotiate access, the academic nature of the exercise, and the assurance of complete confidentiality and anonymity in reporting the study. In order to convince the top-management level personnel of the significance of the study, a formal letter presented from Sheffield Hallam University (SHU) was presented to them; requesting the co-operation of the management, and explaining the study's objectives (see Appendix B). In addition, the researcher assured participants of maximum confidentiality and anonymity in reporting the study, together with independent feedback on their MCS practices and firm performance and a copy of the research findings (see table 5.3). For ethical and trust reasons, everything the participants was told was honest and true. The companies were given an assurance that the information they provided would be kept confidential and, in this way, trust was established. As also documented in other LDC studies, qualitative data access is very complicated, and it was therefore vital to gain management confidence and to establish a good relationship with the selected case study companies.

5.5.4 Selection of the participants

Traditionally, social researchers have utilised two different types of sampling techniques. The first method is known as *probability sampling;* the second as *non-probability sampling.*

Probability sampling, as the name suggests, is based on the idea that the people or events that are chosen for the sample are selected because the researcher has some notion of the probability that the selected group will be a representative cross-section of the people or events of the whole population which is being studied. By contrast, non-probability sampling is conducted without any such investigation or knowledge as to whether those selected for inclusion within the sample are representative of the overall population or not.

Dane (1990) suggests that one advantage of purposive sampling is that it allows the researcher to focus on people or events which are relevant to the study being carried out and, as such, purposive sampling will provide more good quality and useful data. Instead of aiming for inclusion within the sample of typical instances, a wide cross-section or a balanced choice of samples, the researcher is able to concentrate on instances which provide a wide variety of data to help investigate and clarify the research questions at hand. In this sense, it might be seen as not only a more economical methodology, but also a more informative process than probability sampling (Descombe, 1998).

There are, however, some sound theoretical reasons as to why most qualitative research uses non-probability-sampling techniques. There are also important practical reasons for dealing with relatively small numbers when it comes to selecting respondents to be interviewed.

First of all, there is no real need for scale in a qualitative study, as there is no need for estimates of statistical significance (Ritchie and Lewis, 2003). The central and crucial characteristic of non-probability sampling in whatever form it takes is that the choice of people or events to be included in the sample is by definition not a random selection. As pointed out by Streubert and Carpenter (1995), there is no need to randomly select individuals because manipulation and control are not the purpose of the analysis.

Another justification for using non-probability or purposive sampling is that it stems from the idea that the research process is one of "discovery" rather than a process of testing of hypotheses. It is a strategy which Yin (2003) describe as ‘emergent and sequential’. Almost like a detective, the researcher follows a trail of clues, which leads him/her in a particular direction until the index questions have been answered and relevant issues have been explained (Denscombe, 2007).

Since this study aims for an investigation with depth as well as breadth, the detailed analysis of large numbers of in-depth interviews would be simply unmanageable, on account of the researcher’s inability to effectively and efficiently analyse large quantities of qualitative data. Thus, the total numbers of participants interviewed by the researcher are only 25.

However, there are some particular reasons justified by the researcher that could clarify why only 25 participants were chosen. The sample used in this study is "hand-picked" for the purposes of the research. In fact, the respondents are selected with a specific purpose in mind, and that purpose reflects the particular qualities of the respondents chosen and their relevance to the topic of investigation. The researcher felt that longer interviews with a small number of respondents would provide more useful and meaningful data than shorter interviews with a larger number of participants. In short, this type of sampling permits the researcher to select a small number of respondents whose qualities and/or experiences allow a greater understanding of the phenomena in question, and is therefore more valuable for the purpose of this research.

Respondents	Number of interviews in the three companies.	Average time of interviews in hours
Employees who were directly involved with MCS practices:		
Chairmen and/or Board of Directors (BOD) representatives;	3	2 hours per interview
Heads of the finance and/or accounting;	3	2 hours per interview
First line accountants;	3	4 hours per interview
Retired employees.	3	3 hours per interview
Employees who were indirectly involved with MCS practices:		
HR and Marketing department;	3	1 hour per interview
Sales and contracting, Inventory department;	3	2 hours per interview
First line workers.	3	2 hours per interview
Governmental representatives		
General Egyptian Organisation for Housing and Urbanisation (GEOHU)	1	2 hours per interview
Holding Company for Building and Construction (HCBC)	1	2 hours per interview
Egyptian Federation for Construction and Building Contractors (EFCBC)	1	1 hour per interview
Egyptian Trade Union Federation (ETUF)	1	1 hour per interview
Total	**25**	**(22*3)= 66 hours**

Table 5.2 Total numbers and description of participants interviewed

The participants in this study are classified under three broad categories; the first category comprises employees directly involved with MCS practices and the second category focuses those who are indirectly involved with MCS. Employees who are directly involved with MCS practices were those working mainly in the top management layers, Finance and Accounting departments. The others that were not directly involved with MCS practices were employees working mainly in the HR department, Sales and contracting departments, and Engineering departments. The reason for selecting these employees not directly involved in MCS practices was in order to cover some of those issues that the researcher was interested in, such as internal contextual factors and waste minimisation strategies. The government respondents are the third category included representatives from General Egyptian Organisation for

Housing and Urbanisation (GEOHU), the Holding Company for Building and Construction (HCBC), the Egyptian Federation for Construction and Building Contractors (EFCBC), and the Egyptian Trade Union Federation (ETUF). The reason for selecting these respondents was to cover off the external contextual factors themes.

It was important to reach those at a top management level in these firms, because those people possessed knowledge and experience relevant to the research topic. The top-managers sample included chairmen and/or Board of Directors (BOD) representatives, administration officials, the production and sales and contracting departments and heads of the finance, various section heads, and employee representatives. The procedure employed by the researcher was to approach the top management group of each department and ask them whether they could recommend people who the researcher could contact for the purposes of research data collection in relation to both the current situation and the pre-privatisation period.

Finally, since a long period of time had elapsed after privatisation, the researcher added another participant group who had previously worked in these companies and retired. The reason for adding these participants was to gain a better understanding of the former public ownership era. After receiving their approval, the identified participants were interviewed in their homes.

5.5.5Measurements used for the research variables

This section focuses on the following variables: privatisation, MCS changes, general contextual factors, and firm performance.

Privatisation

It was considered that the main objectives of privatisation in the Egyptian environment were to improve the competitiveness of enterprises and their overall operational efficiency, to accelerate the implementation of new technology and production processes, as well as to increase investments and to expand the role of the private sector in the management and ownership of national economic resources (Road, 1997). In the light of these objectives, the purpose of this study was to investigate changes made in MCS and firm performance resulting from privatisation, with the inclusion of mediator variables (general contextual factors) through the use of multiple case studies.

Consequently, based on theory, the actual change in ownership from public to private is used as the indicator for privatisation itself.

Measurements of general contextual factors

When selecting the relevant contextual variables for this study, triangulations of theories were used, by means of using multiple theories in tandem to study an organisational phenomenon (Hopper et al, 2004a). With regard to the contingency theory approach, the important aspects that affect MCS practices and firm performance included: organisational capability to learn, introducing new technology, changing a firm's strategy and capability to undertake action. Besides these factors, other studies conducted in both LDCs and in developed countries on the basis of the institutional theory have identified several relevant factors that affect privatisation and MCS practices. These factors are culture, the role of the government, industry regulation, trade unions (TU), macroeconomic polices, aid agencies and competition. These factors are generally classified into internal and external factors (see tables 3.2and 4.1). The technique used for gathering *internal contextual* factors data is face-to-face semi-structured interviews. The themes of the interviews are presented below:

- Organisational capability to learn (Extent or amount of MCS techniques , size of management accounting staff present in an organisation, background knowledge of the enterprises' top management and the extent of Support of top-management for MCS innovations and their attitude to MCS change).
- Introducing new technology (amount of new investment made in fixed assets , newly introduced MCS practices, and introducing computerised and advanced construction machinery).
- Change of strategy (higher levels of product diversification, quality, customer services, and the adaptation or replacement of their MCS).
- Capacity to take action (presence of skills and resources within an organisation, mobilisation , power differentials, the management's attitude towards service and/or product quality, their knowledge of business traditions and their choice of either rejecting or accepting advanced accounting information as a tool in their decision-making processes) .

With respect to *external contextual* factors, semi-structured interviews and descriptive historical analysis are integrated together to measure this variable. The descriptive historical analysis was devoted to investigating the macroeconomic policies and some aspects of the role of the government, more specifically, the role of the government in providing effective and transparent privatisation regulations. The themes of interviews are presented below:

- Macroeconomic policies (GDP-Inflation time line analysis, impact of SAP policy).
- Role of the government (effective privatisation regulation, minimal political interference).

- Culture (Modern capitalist attitudes, new work mentality focused on quality consciousness and continuous improvement; positive respond to modern MCS, economic rewards, and labour contracts, meritocracy based system).
- Industry regulation (To safeguard infrastructures, stable policies, to solve problems and transparency).
- Trade unions (TU) (Protect the rights of the employees, qualifications and training and education and training programmes).
- Aid agencies (establishing stronger capital markets, introducing export zones, public sector reform, TU activities, party politics, government intervention, developing a market economy, increasing financial regulation and decreasing political intervention).
- Competition (A high degree of competition requires knowledge of cost issues, performance measurement utilisation, participation and effective MCS. In turn, competition stimulates a change to wealth maximisation strategies).

Measurements for MCS changes

The MCS practices dealt with in this study include: planning and budgeting, costing and pricing, internal reporting and decision-making, cost control and waste minimisation, as well as performance measurement and evaluation techniques. Comparisons between these MCS practices were made in respect of the pre-privatisation and the post-privatisation eras. In order to determine the way in which MCS practices were actually performed and whether or not they changed after privatisation, a number of components of each MCS technique were investigated (see table 4.2). These components were also useful in comparing the pre-privatisation MCS practices with the post-privatisation MCS practices. Additionally, the questions about how and to what extent the case firms used MCS techniques during the post-privatisation period and whether they impacted on firm performance were the main focus of the interviews. The themes of the interviews are presented below:

- Planning and Budgeting (Budgeting, profit planning, operations planning (production), co-ordination of activities and long-term planning).
- Costing and Pricing (Type of costing system, nature of cost accumulation and allocation, type of pricing system, use of MCS information and freedom in pricing).
- Internal Reporting and Decision-making(Communication of MCS information ,use of more non-financial measures, information reported more broadly, use of existing systems but interpreting the results differently and decision-making responsibility).
- Cost Control and Waste Minimisation(Quality control methods and waste minimisation techniques)
- Performance measurement and evaluation(Measurement of performance in terms of quality, measurement of performance, in terms of customer satisfaction, measurement of performance in terms of delivery and innovations and reward systems, using performance appraisal system).

Measurement of firm performance

This study used financial variables to measure firm performance within the three studied cases according to five dimensions: (1) profitability, (2) operating efficiency, (3) output; (4) risk, and (5) employees social responsibility.

- Profitability is measured by three variables: return on sales (ROS); return on assets (ROA); and return on equity (ROE), which refers to earnings before interest and tax (EBIT) divided by sales, assets, and equity, respectively.

- Operating efficiency is determined by two variables: sales efficiency and income efficiency, which refers to sales per employee and EBIT per employee, respectively.

- Output is measured by real sales that are computed using the normalisation method after adjusting sales for inflation.

- Risk is measured by financial risk including debt ratio and debt to equity ratio and liquidity risk. Debt ratio refers to total debts divided by total assets and debt to equity ratio refers to long term debt on equity. The liquidity risk will be measured by (account receivable divided by average collection period) plus (inventory divided by cost of good sold).

- Employees' social responsibility is measured by the total number in employment before and after privatisation, total bonus payment per employee, and training cost per employee.

5.6 Data collection approaches

As identified, case study based research can either use quantitative data, qualitative data or a combination of both (Yin, 2003). The study fieldwork provides answers to the “how” and" why” of the matters under study by presenting a wide range of evidence through historical documents, official accounting statements, semi-structured interviews and observations. Eisenhardt (1989) indicated that a combination of data may perhaps be highly synergetic. Quantitative data can indicate relationships that may be salient to researchers. Quantitative data can also protect researchers from getting carried away by false impressions from qualitative data, and it can strengthen results when it is matched with qualitative evidence. Qualitative data are useful for understanding the theory and underlying relationships exposed by the quantitative data, or may propose directly theories that can be strengthened by quantitative support.

In this study, primary data were collected through observations and in-depth face-to-face interviews with the respondents. Secondary data were extracted from audited annual firm statements, company records, statistical reports, and publications. Data collected from sources outside the case firms included documents on privatisation policies, government reports and regulations, and newspaper publications on the progress of the privatisation process. Multiple data collection methods provide a method for triangulation, which increase the research scope, depth and consistency. In addition, the use of triangulation generates materials for discourse analytical studies, thereby improving their coherence and fruitfulness (Eisenhardt, 1989; Yin, 2003). As a consequence of these factors, both quantitative and qualitative data were collected.

5.6.1 Quantitative data collection

The quantitative data collection includes the collection of accounting data such as income statements, balance sheets and other supporting financial documents. Financial data measure the success and failures of the firm and explain how and why its financial health may have changed over time. Financial data outline the basis for planning future operations and suggest ways to improve the firm performance (Crum and Goldberg, 1998). In order to assess the value performance of the companies studied and in order to determine whether their performance was enhanced or not between 1985 -2007, financial variables relating to company operation were collected (sales and operating income), together with details of company investments (total assets) and company finances (total debts, long term debt and owners equity). The companies' income statements, balance sheets and other financial reports are prepared using Generally Accepted Accounting Principles (GAAP), staff from the Audit Service Corporation (ASC) audit the statements of each fiscal period. The financial data are reliable because the financial statements are produced and audited using accepted accounting practices used in the west.

The data of privatised firms were collected from two sources: (1) the Public Sector Information Centre for the privatised firms in the pre-privatisation data; and (2) the Egyptian Capital Market Authority for the privatised firms in the post-privatisation period. In addition, key accounting data as well as annual reports were obtained from the following sources: Cairo and Alexandria Stock Market Exchanges (CASE) and financial year book (financial statements from 1985 to 2007).

5.6.2 Qualitative data collection

There are essentially two kinds of observation research in social sciences: systematic observation and participant observation (Denscombe, 2007). *Systematic observation* has its roots in social science, and is normally linked to the production of quantitative data and the use of statistical analysis. The advantages of systematic observation are direct data collection, systematic and rigorous, efficient pre-coding of data, and reliability. On the negative side, when it comes to systematic observation, the focus on overt behaviour describes what happens but not *why* it happens; it assumes that overt behaviours can be measured in terms of categories that are fairly straightforward and unproblematic. However, observation schedules tend to miss contextual information which has a bearing on the behaviours recorded, and there remains a question mark over the observer's ability to "fade into the background" and simply observe (Denscombe, 2007).

Silverman (2001) describes *participant observation* as participating in a setting, rather than observing people at a distance, in order to understand things at 'firsthand'. Participant observation uses the researcher's self as the main research instrument. On the positive side, participant observation stands a better chance of retaining the naturalness of a setting than other social research methods. It provides a good platform for gaining rich insights into social processes, and the data produced has the potential to be particularly context sensitive and ecologically valid. With participant observation, holistic explanations which incorporate the relationships between various factors are offered up, and occurrences are understood from the subjects' points of view.

However, its disadvantages include the limited options for access, the significant demands in terms of personal commitment and resources, the potential physical danger to the researcher, and the potential deception by the researcher of the subjects around him/her. Moreover, there is always the chance of observer *bias* and *capture*, whereas the researcher imposes his/her own expectations onto the subjects. The fact that the observer is there will change the behaviour of the subjects, and only the exact degree of change is unknown. Conversely, the observers can find that their objective position is compromised as they begin to become more intimate with the group. As the studies generally provide little empirical data, so the findings are always open to personal interpretations (Denscombe, 2007).

In participant observation, these disadvantages are unavoidable, and have to be regarded as an integral part of the research (Silverman, 2001). With participant research, the researchers should, instead, show that they are aware of the limitations, reducing the chances of bias. This will allow anyone reading the research to make a qualified judgment about the quality of and the usefulness of the research.

In this study, participant observation was utilised and, thus, the researcher was one of research instruments used in this process. Although it is not the main research instrument used in this research, it is worth mentioning, therefore, that the effect of factors such as reflexivity, perception, bias and capture may be reflected in the research findings.

At all times when the researcher recorded data, he was with the personnel performing the activity, observed the work directly, and assisted where necessary so that he could gain a better understanding of it. The researcher asked questions, where necessary, to clarify his observations. As Silverman (2001) advises, the greatest danger in writing field notes is that researchers will seek to report 'everything' in their notes. Not only does this overlook the theory-driven nature of field research, it also means there is an impossible burden on the researcher when he tries to develop a more systematic analysis at a later stage. The critical task in qualitative research is not to accumulate *all* the data, but to '*can*' (get rid of) most of the accumulated data. This requires constant winnowing and consideration of the data collected throughout the process. This, therefore, became an important guideline for collecting the qualitative data in this research.

The main reason for the researcher using participant observation was to understand the expected changes in culture resulting from privatisation within the selected case studies. More specifically, the researcher hoped to investigate the anticipated modern capitalist attitudes, new work mentality which focused on quality consciousness and continuous improvement; the positive response to modern MCS, economic rewards, and labour contracts and the meritocracy based system. Investigation of these themes required observable behaviour from the researcher to support and triangulate the data generated from the semi-structured interviews. In other words, the reflexivity and perception of the researcher was integrated with the employees' perspective in investigating these themes.

Carrying out both obtrusive and unobtrusive monitoring, undertaking formal and informal interviews, and attending at formal and informal meeting were the main actions performed by the researcher. The first step in conducting the qualitative fieldwork was the development of a data collecting plan. This plan was arranged for each individual case and consisted of an informal agreement between the researcher and the nominated contacted person for each company about the research instruments used, the respondents, the time period of the research and the expected values of the research for the firm (see table 5.2). During the fieldwork process, multiple sources of evidence were used via a range of research instruments, which were needed to attain construct validity. The instruments used were:

- Studying relevant documents, such as internal reporting, management reports, minutes of meetings, archival records and construction work instructions. The documents were used to corroborate and augment evidence from supplementary sources (Yin, 2003).

- Observing the MCS process and practices through accompanying the employees concerned during the practice of their MCS activities. The observational evidence obtained provided additional information about various matters involved in MCS practicing.

- Attending pre-arranged and spontaneous meetings concerning the practicing of MCS in order to get a better understanding of and additional information about matters concerning MCS, as well as interviewing the different personnel involved in the MCS activities.

Subject	Informal agreement
Time period	Three weeks per company Interviews with top managers : about 2 hours; Interviews with employees directly involved: about 4 hours; Interviews with employees indirectly involved: about 1 hour.
Research instruments	Use of interviews; Accessibility of relevant documents; Accompanied employees during MCS practices; Attended relevant meeting; Guided tour through some project locations.
Respondents	Employees who were directly involved with MCS practices: Chairmen and/or Board of Directors (BOD) representatives; Heads of the finance and accounting; First line accountants. Retired employees. Employees who were indirectly involved with MCS practices: HR and Marketing department; Sales and contracting, Inventory department; First line workers; Governmental employees
Results	For each company: case study report for their MCS and firm performance For the researcher: data collection

Table 5.3: Informal agreement with companies studied

By interviewing multiple respondents in each case, triangulation was applied to the research. The semi-structured interviews were performed with employees working in the studied firms. Although the questions posed in the interviews were predetermined according to themes based on the pilot study and the conceptual framework of the study, the respondents were encouraged to elaborate on the matters under discussion. In this way, the researcher was able to obtain previously unidentified additional information relating to the research topics. Extensive interview meetings with top managers were also important given that these participants were the main users of MCS activities, and their policies influenced the performance of the entire organisation.

A major stumbling block encountered by the researcher was finding knowledgeable employees who had worked in the firms during the period of public ownership, in order to obtain data on past MCS practices. This was not easy task, because the majority of the former pre-privatisation employees had been replaced. Therefore, three additional interviews with retired employees were performed. The second respondent group that included employees who were indirectly involved with MCS practices; for instance government employees, HR and Marketing department; Sales and contracting, Inventory department and Construction workers. The data offered by such interviews were vital in gaining an insight into the case-studied firms' operations during the period of public ownership, the role and involvement of the GOE, the influence of external factors, and the privatisation process, as well as their motivation and their perception of the new ownership.

Given that the interview questions had been prepared in English, most of the participants required an additional explanation of the meaning of the concepts addressed in the local language. Hence, all of the interviews were conducted in the local language, thus optimising the consistency of the information. In this respect, it should be noted that interviewees in developing countries, including Egypt, usually refuse to have their interviews tape-recorded for cultural and personal reasons. Therefore, only 8 interviews were actually recorded. For others, notes were taken and written up, using the 24 hour rule (Eisenhardt, 1989; Elbanna and Child, 2007). Since this study consisted of only 25 interviews, and the amount of data recorded was manageable, the data was coded and analysed manually.

On the basis of the conceptual framework, developed themes for coding the data gathered were formulated (see section 5.5.4). The interviews were transcribed soon after the interview took place. Subsequently, the interviews transcripts were coded on the basis of the predetermined themes. Thus, a developed a case study database was formulated. In this case study database, not only the coded interviews were included, but also information from related documents, observations and relevant historical analysis conclusions. Then, the report of each studied company was translated into English. The database provided an overview of the data collection for each case and directed the case study reports for each case studied. Therefore, the case study database was an important approach in ensuring the reliability of the research.

5.7 Data analysis methods

This section describes the process of analysing the multiple data collection gathered by the study. The first sub-section describes the quantitative data analysis, while the second sub-section focuses on the method of qualitative data analysis employed by the study.

5.7.1 Quantitative data analysis

The main aim of the quantitative analysis performed in the study was to assess the post-privatisation firm performance and compare this to past performance during the public ownership era. A variant of the MNR (1994) methodology was adapted.

The analysis of firm performance for every case relied on five broad categories: profitability, efficiency, output, risk and employees' social responsibility. A set of thirteen financial ratios[7]

[7] Financial ratio analysis is a technique for interpreting financial accounts. These ratios examine the firm's performance over a number of periods by comparing the same ratios in previous years' time interval for the three companies.

(year 0) was excluded from the analysis, because it included both public and private ownership phases of the firm. Therefore, the time interval data for each accounting ratio within every unit case was 23 years, from 1985-2007. By using Statistical Package for the Social Sciences (SPSS) version 18, the structure of each unit case firm performance analysis was as follows:

Firstly, descriptive statistics were used to describe the basic features of the data for each main category. The aim was to give a clear view of raw data with the description of the mean and median and standard deviation, in order to present the measurement of central tendency and variability. In addition, the descriptive statistics employed another two tests: standardised skewness and the standardised kurtosis, to determine whether the accounting performance measures of each paired group ratio could be adequately modelled by a normal distribution, i.e. both test values lie in the range of ±2. As indicated by Keller (2002) and Kvanli, Pavur, and Keeling (2006), if the value of standardised skewness and the standardised kurtosis lie in the range of ± 2, data could be adequately modelled by a normal distribution. If the value was outside the range of ± 2, data are not normally distributed.

Secondly, if any variable was not normally distributed, the nonparametric Wilcoxon signed-rank test was adopted to test for significant differences in performance based on median values. In addition, the analysis used the two tailed parametric t-test for significant changes in mean, if the test for normality was valid. As indicated by Barber and Lyon (1996) and Jerome (2008) among others, the non-parametric Wilcoxon test statistics are more powerful than parametric t-statistics, when data are not normally distributed and are well suited for use in cases with a small sample size.

were grouped under these five main categories and used to examine the privatised firms' performance for each case unit. These specified ratios were calculated for every firm, for a fixed time interval of eleven years before and eleven years after privatisation, except in relation to real sales, where the researcher used nominal data for the calculation of ratios. For calculations of real sales, data was deflated using the consumer price index (CPI) values in Egypt. Then, for each ratio, the means and medians were calculated for every unit case for the pre-privatisation (years -11 to -1) and post-privatisation (years +1 to +11) period. The year of privatisation 1996

5.7.2 Qualitative data analysis

The first part of the qualitative analysis was a descriptive historical analysis which focused mainly on secondary sources, supported by information from other sources, for instance several Egyptian government documents and international organisations reports. By means of secondary sources, this historical analysis explored why and how the GOE adapted its privatisation policy.

The second part of the qualitative analysis was mainly based on the semi-structured interviews analysis and participant observation. The research qualitative data analysis was based on 'the ladder of analytical abstraction' developed by Carney (1990: cited in Miles and Huberman, 1994: 92) and consisted of the following steps:

- Transcription of interviews and description of other data sources and documents.
- Combining and clustering of text for further analysis by means of concepts in the framework.
- Data reduction and summarising.
- Interpretation of findings and formulation of summaries and conclusions.

In analysing the data gathered via interview, the researcher used a deductive strategy by starting with the conceptual framework and theoretical expectations. By means of a semi-structured coding technique, the interviews and visual data were converted into transcripts and descriptive texts. After that, these documents were analysed on the basis of their content, in order to get rid of any data not relevant to the research questions. The coding process involved various concepts related to MCS practices and the general contextual factors. During the analysis, paragraphs of the text and less relevant passages were removed and similar fragments summarised and combined. This data reduction facilitated pattern matching and the formulation of conclusions.

Each case firm was taken as a *unit of analysis,* and a cross-firm comparison was undertaken to identify the differences and similarities between these separate units. The cross-firm analysis facilitated the comparison of research case findings with those of similar studies conducted in other LDCs. However, it was not possible for the researcher to find similar case studies on MCS practice changes conducted in LDCs using the contingency theory perspective. The available studies were all performed using a survey approach which lacked depth and did not consider the impact of privatisation and the contextual factors.

Through integrating both quantitative and qualitative analysis, each firm level analysis focussed on the impact of the contextual factors on the MCS practices and firm performance during the transition period as well the pre-privatisation period. Subsequently, the public and private ownership periods were compared in terms of the firms' MCS practices and performance levels. With regard to firm performance, the emphasis was on whether the case firms had improved their performance. During the course of the analysis there was also a focus on the wider context of MCS, that is the influence of contextual variables. In order to obtain more insight into the contextual factors which played a role in MCS practices and firm performance, the data gathered from the government bodies was used. In addition, historical descriptive analysis looked at the way in which government policies and regulations influenced the privatised firms, by means of offering an enabling external environment.

To conclude, a final remark with respect to the qualitative analysis must be made. In collecting data on the basis of a qualitative study, the perspectives of the researcher as well as the perspectives of the interviewees play a significant part in deciding which data should be further explored, which perspectives are involved and which themes or patterns required further analysis. In the data collection stage, the conditions of the researcher were focused on an elaborated research protocol and the use of semi-structured interviews. In the data-analysis stage, the conditions of the researcher were focused on the use of the semi- structured code list, and a constant checking against the conceptual framework of the study. For each of the three companies concerned, a case study report was written which included MCS practices changes, firm performance and the effect of the contextual factors after privatisation. The managers concerned for each company reviewed theses reports. After this review, the researcher planned a separate session for each company to discuss the results of the study. During these sessions, the accounting manager and financial manager at a minimum were present. Therefore, verification of the data gathered and analysed was guaranteed from the perspectives of the various functional disciplines involved in the analysis. Furthermore, not only the researcher but also an Egyptian independent researcher was present during both the data collection stage and the final sessions, in order to observe validity. The discussion carried out during these sessions confirmed the main results of the study.

5.8 Summary

The aim of this chapter was to show how both multiple mixed methods case study research and descriptive historical analysis were integrated into this research to investigate the phenomenon of privatisation within LDCs. To account for reliability and validity of the research, significant attention was paid to the research design and, in particular, the research protocol. After an extensive literature study, the researcher was able to build a conceptual framework. This conceptual framework functioned as a display of the theoretical expectation and as a basis for the research protocol. In its quest to discover the effects of privatisation at a firm-level, this study has gone beyond the comparison of the results of purely financial measures. It has focused on the changes in MCS practices as well as on the effects of both external and internal factors. The researcher believes that the final analysis of this thesis should inform whether the business plans as agreed upon by the case firms were in fact implemented, and whether there were problems that hindered their realisation. On this basis, the researcher would be able to illustrate relevant conclusions that could be fed back to the case firms and to the government.

In summary, the purpose of constructing the research design was to meet the criteria for the quality of empirical research. Table 5.4 presents an overview of the criteria, the suggested study tactics and the use of these tactics in this study.

Criteria	Cases study tactics	Practice of the study
Construct validity	-Multiple source of evidence -Chain of evidence -Have Key informants review drafts case study report	-Data collection by multiple research instruments -Data collection based on predetermined themes -Discussions with mangers involved at the selected companies, based on the review of drafted case study reports.
Internal Validity	-pattern matching -Explanation building	-using long time line analysis i.e., 23 years -The conceptual framework of the study
External Validity	-Use replication logic	- Identifying unit of analysis and selection criteria
Reliability	-Use case study protocol -Develop case study data base	-Data collection based on research protocol -Data collection reported and coded cased on themes derived from the conceptual framework of the study

Table 5.4 Methods used to account for validity and reliability

In the following chapters, the results of the empirical study are discussed. Chapter 6 describes how the application of structural adjustment policy (SAP) and privatisation have affected the role of the Egyptian government, particularly with regard to their previous responsibility for promoting development and providing social welfare programs. Chapter 7 sets out an analysis of each company studied, focusing on a detailed description of the post-privatisation changes of MCS practices and firm performance. Chapter 8 conducts a cross-case analysis of the post-privatisation changes by focussing on the differences and similarities between the cases-specific findings relating to the three companies. Throughout this analysis, the development of contextual factors is indentified and discussed, as it can be seen that they played a major role in hindering the studied companies from improving their MCS and firm performance. Then, the conceptual framework of the study is modified so that it could be suitably adapted to similar situations in other LDCs.

CHAPTER 6
Historical descriptive analysis

6.1 Introduction

This historical descriptive analysis draws primarily on secondary sources, with support from several Egyptian government documents and from research from international organisations. Through secondary sources, governmental documents, and newspapers, this chapter is intended to answer the research sub-question - why and how Egypt applied the privatisation programme. In addition to exploring this issue, this chapter also investigates the evolution and development of two external contextual factors; the role of the government and the impact of macro economic polices. These factors are influential on effective privatisation regulations and enabling the macroeconomic environment. Furthermore, this chapter focuses on how the application of structural adjustment policy (SAP) and privatisation have affected the role of the Egyptian government, particularly with regard to their previous responsibility for promoting development and providing social welfare programs.

Subsequent to Egypt's 1952 revolution, the GOE played an effectual role in economic development until the mid-1970s, and heavily supported social welfare programs until shortly prior to the application of SAP, which included the privatisation policy in 1991.To understand the reasons for and the motives behind Egypt's decision to apply its privatisation policy, and to look properly at its role and macroeconomic polices, it is essential to analyse the development of the Egyptian economy from the 1950s to the present day. Hansen (1991) divides Egypt's political and economic transformations in the twentieth century into five periods.

The first period from 1929 to 1955 was characterised by reliance on private enterprise and free trade. At that time, Egypt developed strategies which were dependant upon agricultural exports, which was in turn supported through public investment. In terms of industry, the Egyptian economy primarily depended on imports substitution, which supported industry by means of tariffs and other trade restrictions. The second period from 1955 to 1960, which was effectively a period of transition, witnessed no essential changes. However, the third period from 1960 to 1965, witnessed the rise of the Egyptian public sector. Egypt's economy still largely depended on agriculture, import substitution and export promotion. In the realms of industry, import substitution started to become displaced by a growing military-production agenda.

The fourth period, from 1965 to 1973, bore witness to the wartime economy. Like many other newly independent postcolonial countries, Egypt too espoused a state- led growth policy, through which it aggressively interfered in industrial activities to promote the development of the country and the nation's welfare. By applying this sort of policy, Egypt achieved real economic and industrial development and was able to subsidise social services for the majority of the poor. This type of interventionist government, called the "*etatist* system," was "*characterised by the classic duality of roles taken on by a modernising state ... the welfare and the developmental roles*" (Wahba, 1994, p. 20).

Finally, the fifth period from 1973 to 1991, saw a continuance in the Egyptian association with *etatism* and a large public sector economy, but also a move back to a peacetime economy. The period included the implementation of the *open door policy,* or partial economic liberalisation. The economy was still largely dependent on import substitution in agriculture, whereas industry also benefited from oil, tourism and the Suez Canal revenues. In order to maintain this growth, Egypt allowed and encouraged the migration of workers, and actively promoted export-oriented activities. The Egyptian economy during the fifth period relied on social welfare programs and a subsidisation process, rather than on industrial and economic development, as a means by which to satisfy the material needs of the public and the maintenance of legitimacy.

Although coming after Hansen's analysis, the period from 1991 to the present date has observed a growth of the trends that Hansen recognised in the fifth period. The institutional setting of this period has depended on the maintenance of the open door policy, growth in the private sector, and widespread liberalisation. On May 17 1991, the Egyptian state implemented a series of structural adjustment and privatisation programs which have resulted in extensive social and economic changes. These new policies have displaced the economic and political policies of the previous socialist regime under Nasser (1952-1970) and most of the Sadat's era.

This chapter focuses primarily on the economic and political transformation of Egypt following the application of SAP and the privatisation programme. The chapter consists of six main sections; Section 6.2 provides a review of the most important historical political and economic events in Egypt before the implementation of the SAP, Section

6.3 discusses the implementation of the SAP and privatisation programme and analyses some of the relevant economic indicators, Section 6.4 analyses the process of social subsidy reduction following the implementation of the SAP, and Section 6.5 focuses on the process of the Egyptian privatisation programme, the reduction of the public sector and the regulation of the Egyptian privatisation programme. Finally, Section 6.6 provides a summary of the discussions in the previous parts.

6.2. Historical background

Recent studies suggest that the application of SAP and privatisation policies represented a turning point for contemporary Egypt. The World Bank considers that the application of SAP in 1991 was a critical point in Egypt's modern economic and political history (The World Bank, 2005).

In actual fact, Egypt had already witnessed two such turning points during the second half of the 20th century. The first was the 1952 revolution, which saw the application of Arab socialism and a centrally-planned economy, associated with social-welfare policies and a strategy of ambitious development. The second started officially in the wake of the 1973 October War, with the declaration of the open door policy. The Egyptian economy shifted from the central-planned economy of the former era, to increasing emphasis on the foreign investments and private sector. Since it established the open door policy, Egypt has changed its economic policy from central planning to a market economy.

In the next two sub-sections, this study reviews the most important political and economic events in Egypt throughout the two identified eras; firstly, the command oriented economic era (from 1952 to 1970) and, secondly, the open door policy era (from 1970 to 1981).

6.2.1 The first era from 1952 to 1970

The recent history of Egypt began after the revolution in July 1952 which impacted in many areas: political, social, legal and economic. The basic idea of the revolution in economic terms was the nationalisation of all major industrial, financial and commercial businesses, whether foreign or domestic, which would lead to the establishment of a vast state sector to act as the strategic motor for development within the country (Mahjoub, 1990).

At the time of the 1952 revolution, Egypt represented a fairly normal picture of a dual economy, with a small modern sector developed within a tradition-bound society. A rapidly expanding population was pressing hard on limited agricultural resources. There were severe problems in relation to poverty, unequal distribution of income, illiteracy, disease, unemployment and political corruption. Through the adoption of a planned-economy approach, Egyptian officers developed a larger public sector, massive nationalisation, and a widespread process of income redistribution, which was accompanied by many social policies (Oncu et al., 1994; Kanovsky 1997; McDermott, 1988; Waterbury, 1983).

Following the revolution, Nasser's regime saw the implementation of a socialist system that depended upon a broad union of workers, farmers , and segments of the middle class, including officials, technocrats, intellectuals, and students (Kerr and Yassin, 1982). This wide-ranging union was the fundamental mechanism for legitimating and supporting the new regime against the old classes, mainly landlords. Nasser confiscated a huge number of private enterprises, and redistributed the newly nationalised land among landless farmers (Mabro and Radwan, 1976).

After Nasser's regime announced the so-called Socialist Decrees of its extensive nationalisation in July 1961, the public sector significantly expanded. By 1963, all financial institutions, transportation, and all important industrial sectors were possessed by the public sector. A significant amount of internal trade and external trade remained under the control of the state. Agriculture and urban real estate were the only sectors "*outside complete government ownership, but they were overwhelmingly regulated by laws and decrees*" (Mohieldin and Nasr, 1996, p. 33). By adopting a policy of SOEs after the 1956 Suez War, the GOE organised public firms under the control of a holding company[8], known as "the Egyptian Development Organisation". By 1959, the government had created two further holding companies, which controlled firms nationalised from the private sector (Waterbury, 1992). Thus, The SOEs sector became the essential key to achieving the economic development of Nasser's regime.

The newly formed Egyptian Development Organisations belonged to the state and were "*charged with preparing plans, developing budget projections, procuring raw materials*

[8] More details about the regulation of the Egyptian SOEs are presented in section 6.5.1

and financing, and identifying senior management" (Waterbury,1992, p.199). The public sector was maintained by three large General Organisations of the public sector, which were divided into thirty-eight smaller divisions. These were allocated to various ministries by virtue of Presidential Decree 1989/1961. By 1965, the public sector had been extended to the greatest level in its history, and the Egyptian economy as a whole grew at remarkable rates. The public sector accounted for nearly 40% of total output, 45% of domestic savings, and 90% of gross domestic capital formation (Waterbury, 1983). This expansion of state ownership resulted in a strengthening in control over Egypt's economic resources.

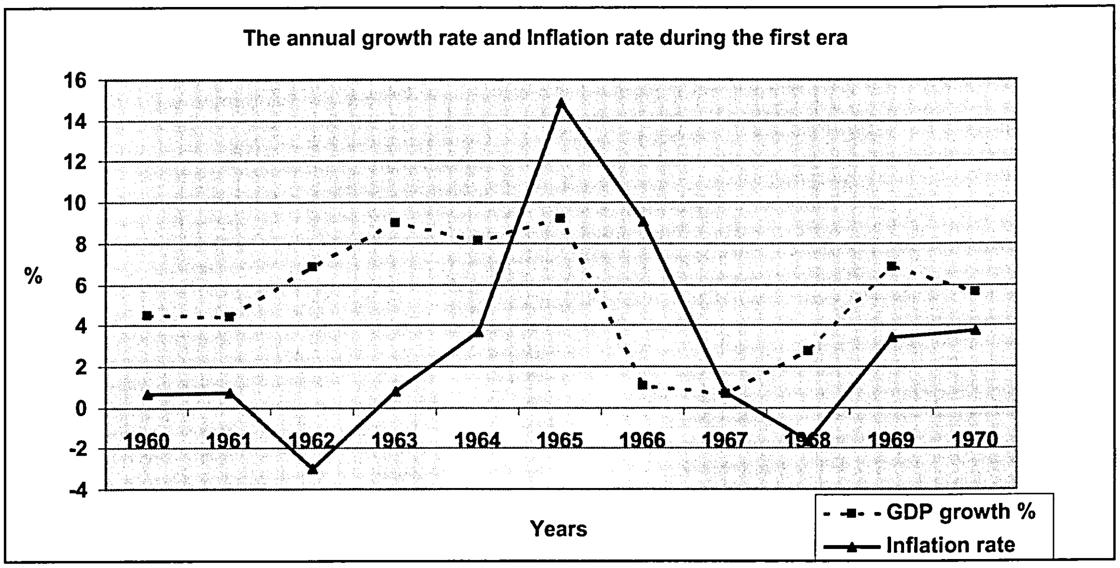

Figure 6.1: GDP and inflation rate from the period 1960-1970.
Source: World Development Indicators (WDI), 2002.

One of the main aims of the GOE in this era was to develop the Egyptian economy, with a focus on industrial growth. The period from 1960 to 1966 (see figure 6.1), witnessed a period of economic stability. Growth rates averaged 6.16%, unemployment was virtually eliminated among workers and intellectuals, the inflation rate averaged at 3%, and per capita income had increased by 19.1% by the end of the period (Aoude, 1994). After 1966, the evolution of the GDP growth rate was mainly influenced by the 1967 war conditions, which necessitated a big investment for military purposes. The blocking of the Suez Canal also led to a stagnation of works in the factories and plants in the Suez area. As a result of these external factors, between 1967 and 1973, the Egyptian economy was oriented towards fulfilling military objectives, thus neglecting the accomplishment of the second five-year plan objectives. The weight of military expenses in GDP grew from 5% in 1962 and 6.2% in 1966 to 20% in 1973; around 20 billion Egyptian pounds (Kenawy, 2009).

The war burden had a negative impact on the general economic performance due to huge material expenses, for example, weapons and the teaching of fighting techniques, machines, equipment and buildings. There were also significant human losses (Ikram, K, 2006). The state services sector grew in this period, especially military services, which absorbed a great volume of personnel. After the war, the vast proportions of these workers were made redundant, resulting in a significant increase in the unemployment rate from 7% in 1962 to 24% in 1968 (Kenawy, 2009). Because of these economic and political difficulties, and the burdensome 1967 war, the Egyptian state adopted the open door policy in the 1970s, beginning widespread economic partial liberalisation.

6.2.2 The second era from 1970 to 1990

As previously mentioned, Egypt explicitly adopted the slogans of "socialist transformation" and "the non-capitalist path" with the Socialist Decrees of 1961, but gradually dropped them after 1974. The GOE adopted the open door policy in the 1970s, beginning widespread economic liberalisation[9].

The open door policy made the private sector the engine for economic growth, removed restrictions on foreign investments, lowered tariffs on imported goods, and increased exports. The open door policy intended to relax official constraints imposed on management of the private and public sectors, particularly with regard to finance, tourism, and construction (Harik, 1997; Sonbol, 2000). The GOE believed that reducing restrictions on foreign exchange would help the upper classes, including businessmen and government officials who had considerable connections to international capital and multinational corporations, to contribute to the economy. However, the private sector did not immediately respond to the government's attempt to engage it in economic investment and did not become actively involved in the economic process until the early 1990s (Harik 1997).

[9] In the 1970s, many other Arab countries, including Jordan, Syria, North Yemen, and Tunisia, followed the direction that Egypt took with its open door policy. Kerr states that, "*despite considerable variations of detail from one country to another, open door policy has everywhere included measures to relax central controls over the economy so as to facilitate the entrance of foreign capital, the productive investment of domestic capital, and the movement of domestic labor out to the oil producing neighbors*" (Kerr and Yassin, 1984, p. 4).

As the GOE applied their policies and increasingly accepted free market principles, the gap between the rich and the poor widened further than it had during the 1960s. While the lowest 20% of the population held 6.6% of national income in 1960 and had improved their share to 7% in 1965, this figure subsequently decreased to 5.1% by the late 1970s. By comparison, the income of the highest 5% decreased slightly to 17.4% from 17.5% between 1960 and 1965, but increased noticeably to 22% in 1977 (McDermott, 1989). It appears that the *etatist* policies had succeeded in narrowing the gap between the rich and the poor to some extent, but that this advance was destroyed by the open door policy.

After the declaration of the open door policy, the Egyptian economy became dependent upon a somewhat unstable foreign earning. Besides petroleum, there are four other exogenous sources of income upon which the Egyptian economy has depended since the 1970s as follows:-

- tolls from the Suez Canal after it's reopening in 1975
- remittance from Egyptians working abroad
- tourist revenues
- Grants and loans from the U.S and the aid agencies (El-Laithy, 1997; Rivlin, 1985).
-

It is important here to highlight the negative impact of the declining of these external revenues on the performance of the Egyptian economy in the 70s and 80s; the decades immediately preceding the privatisation policy. To do so, one must also seriously consider the open door policy as a key force underlying the political and socio-economic changes in Egypt during the 1980s and the 1990s.

The Egyptian economy during the 1970s suffered from several problems, including a weak public sector companies suffering accelerating losses, inefficient economic structure, and a growing need to subsidise several production sectors, wage earners, and products (see figure 6.2). "*As a result, Egypt suffered from growing fiscal deficit, escalating inflation rates, worsening balance of payment deficits, and declining international reserves*" (El-Mahdi ,1997; Mohieldin and Nasr 1996; El-Laithy 1997).

In contrast, from 1975 to 1980, the GDP averaged 8.34%, while inflation averaged 12% during the same period. This was considered a remarkably high growth rate by international standards. The majority of this growth was generated from the external sector, which included Suez Canal duties, oil revenue, remittance of Egyptian workers abroad, and tourism (Mohieldin and Nasr, 1996).The income from these resources increased from L.E603 million in 1975 to L.E4221 million in 1982 (Beesley, 1992). Thus, during the period of the open door policy, the economy depended mainly on external sources, which Harik (1997) calls the "*rentier system.*" Rivlin (1985) confirms this, indicating, "*These funds created what might be called a parallel economy; they did not bring about changes in the domestic economy (industry and agriculture) to any great extent.*" Rivlin identifies these sectors as the "*rentier*" sectors, since they depended on decisions made abroad or on natural resources.

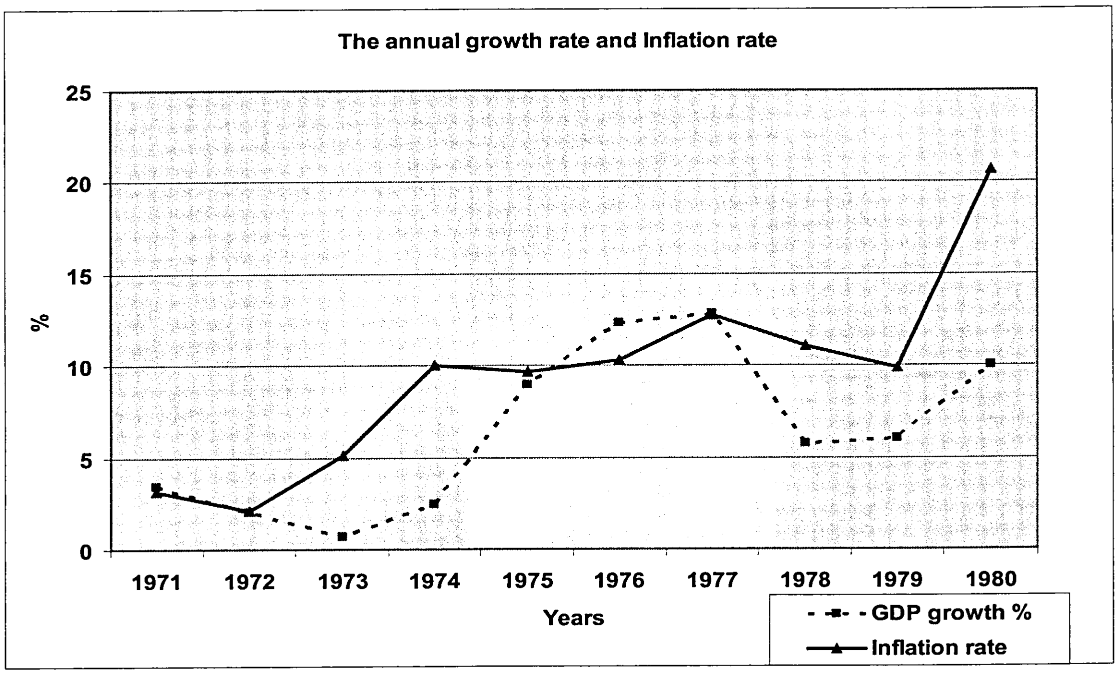

Figure 6.2: GDP and inflation rate from the period 1970-1980.
Source: World Development Indicators (WDI).

In addition, since the mid-1970s, Egypt, along with many other LDCs, has suffered from the negative effects of the debt crisis, which has resulted in a high inflation rate. It has been crippled by heavy foreign debt, and has suffered from servicing these debts. At that time, interest rates were so high that the debt crisis which started then has continued to distress the Egyptian economy to the present day .Egypt's total external debt in 1977 was over US $5.7 billion, 42% of its GDP (World Bank, 2000c). In light of this economic crisis, which resulted in increased debts, a severe budget deficit of over US

$2.0 billion[10], and weak economic growth, the Egyptian government began its first discussion with the IMF in 1976. Accordingly, the GOE decided to reduce expenditures by cutting subsidies. Egypt's only practical choice for reducing its debt was to cut welfare subsidies.

The 1976 discussion between the IMF and the GOE led to a US$450million loan, which was dependent on Egypt's willingness to execute currency reforms and decrease government spending (Rivlin, 1985). That agreement sparked Egypt's most serious riots since the 1952 revolution, which occurred on January 18 and 19, 1977. These riots posed a substantial threat to Egypt's social stability (IMF 2001). To solve these domestic problems, the GOE planned a series of short and long term loans. Because of the doubled spending in the first half of 1977, in November 1977 the GOE requested a US$600million loan from the IMF over three-year period, rather than US$450 million. In the event, the IMF initially approved only US$105 million in 1977, citing concerns that excessive borrowing would lead Egypt to exceed its ability to repay the borrowing, which would further destabilise the economy. However, the U.S was concerned that a deficiency in available funds would result in more domestic insecurity and thus effectively forced the IMF to allow Egypt to borrow more (Rivlin, 1985).

Unfortunately, the GOE ignored the inevitable negative political and economic costs of the spending reductions. The GOE's primary aim was to maintain political and social stability. Thus, its major objective was to make a compromise between internal demands and external pressures. The GOE continued to deal with aid agencies, seeking new grants and loans, on the condition that they did not lead to further political and social disorder (Harik, 1997; Clark, 2000).

In July 1978, the IMF and Egypt achieved a second agreement, leading to a US$750million loan. The principle conditions of the agreement included an increase in interest rates, an extensive review of Egypt's subsidy system, reduction in the fiscal deficit, and a reform of the exchange rate system. If the terms were not met, funds were withheld. For example, in November 1978, the budget deficit exceeded the limit agreed with the IMF, who then refused to allow Egypt to draw that portion of the loan due on 15 November 1978 as a consequence (Rivlin, 1985).

[10] The budget deficit equated to 20 % of Egypt's GDP in 1976. The IMF and others in both Egypt and abroad felt that this was excessive (Rivlin, 1985).

The open door policy depended heavily on over-borrowing from creditor governments and unsecured sectors. There were policies aimed at trying to develop and upgrade the infrastructure, to support private sector initiatives, to expand new industrial and urban clusters in the desert and to control population increase (Kheir-El-Din and Moursi, 2007). As mentioned earlier, the policies were maintained by a sustained and significant influx of foreign exchange resources allied with growing world petroleum prices. The level of investment increased and remained relatively high until the mid-1980s, stimulating a comparatively high GDP growth rate (see figure 6.3). Social welfare policies were continued, providing wide-ranging consumption and production subsidies, public employment and free social services to all secondary school and university graduates (Kheir-El-Din and Moursi, 2007).

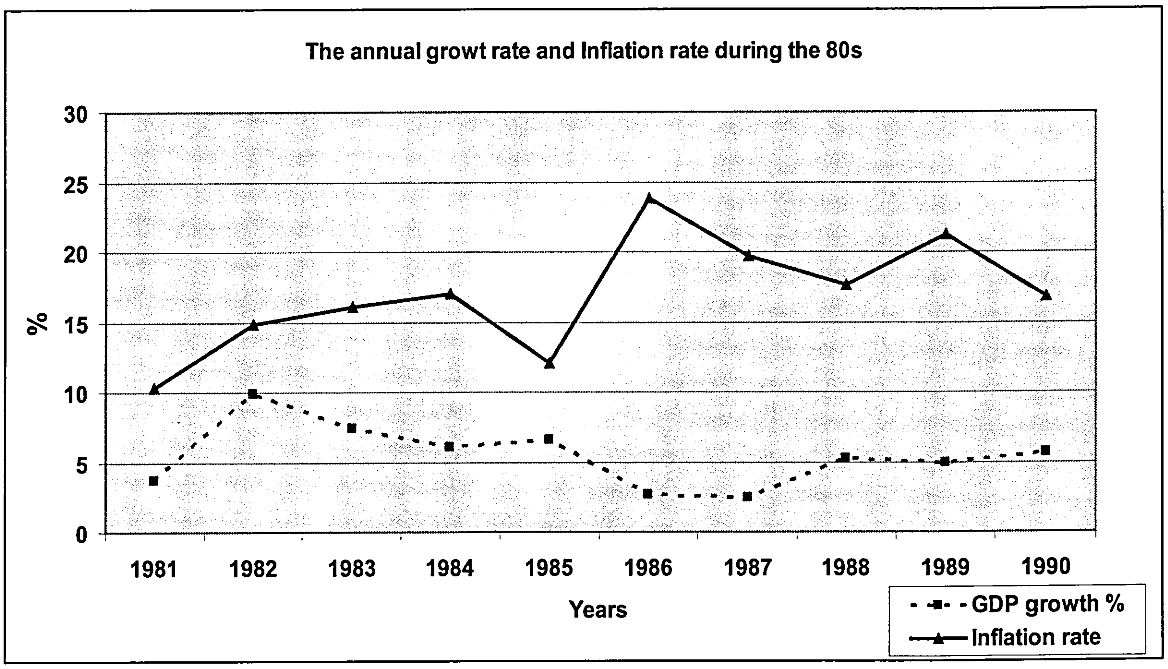

Figure 6.3: GDP and Inflation rate from the period 1981-1990.
Source: WDI

Since the price of oil declined by 50% in 1986, the economy was not prepared to absorb this external shock. As a result, the real GDP growth slowed down to 2.6% and 2.5% in 1986 and 1987 respectively, and the economy rapidly began to have serious difficulties. The fiscal budget deficit amounted to 23% of the GDP in 1986, without debt amortisation, and the current account deficit exceeded 10% of the GDP. The external debt reached 119% of the GDP in 1987, with a debt service ratio of over 40% of total exports (Mohieldin and Nasr, 1996). Inflation accelerated to approximately 24% in 1986 from an average of 14% during the previous five years.

These policies proved to be too expensive, and urgent revision was required. Macroeconomic imbalances, partly due to the high cost of implementing the policies, threatened the stability of the economy. By the end of the 1980s, and until 1990, investment declined sharply as a result of the collapse of international prices of petroleum and domestic market distortions that damaged the efficient allocation of investment in general. Investment decline was reflected in the decline in growth rates of real output and increased inflationary pressures. The economic slowdown of the mid-1980s was accompanied by a sharp increase in annual inflation, high interest rates and severe conditions.

In an attempt to stabilise the economy, the GOE reached a third agreement with the IMF on May 1987. Egypt agreed an economic package whereby the IMF provided a US$250million Special Drawing Rights (SDR) standby credit over eighteen months. This agreement included a 10-year debt rescheduling through an informal group of OECD creditor governments and the Club of Paris. After the first US$160 million instalment of this loan was repaid to the GOE, the agreement was cancelled, as with those of 1976 and 1978. While the IMF blamed the GOE for failing to fulfil the conditions of the agreement, the GOE cited fear of substantial social disorder, expressing a preference for applying the conditions slowly and gradually (Dillman, 2001; Clark, 2000).

The Egyptian economy saw in the 1990s severe problems, including an escalating inflation rate, growing fiscal deficit, declining international reserves and a worsening balance of payment deficits. For instance, the GDP growth decreased from 5.3% in 1988 to just 1.07% in 1991. Besides this, the Egyptian pound was devalued from 1.761 to 3.009 per US dollar (Abdel-Khalek, 1992).The World Bank (1991) attributed this worsening position to the GOEs failure to decrease welfare expenses, a debt increase, and an inability of its exports to offset sluggish foreign exchange performance. This position was further worsened by reductions in the amount of money that Egyptians working abroad sent back to Egypt, and a decrease in foreign aid levels.

In addition to these chronic problems which affected the Egyptian economy at the end of the 1980s and into the 1990s, one cannot ignore the impact of international and regional disorders on the Egyptian economy. Iraq's unexpected attack on Kuwait on August 2, 1990 and the ensuing Gulf War vastly reduced Egypt's sources of finance. It forced the return of approximately 700,000 workers from Gulf countries and a rigorous decline in tourism. Alongside this, the heavy service burden of Egypt's debt continued, which amounted U.S$46billion (World Bank, 2000c). In March 1991, the GOE once again turned to the IMF, reaching an agreement to borrow U.S$278million SDRs, on the condition that it would execute a comprehensive and extensive economic reform program. The IMF, the World Bank, and Egypt consequently settled the SAP in May 1991. This agreement allowed Egypt to access U.S$3billion, in three increments, in order to reduce its gigantic debt, which had reached U.S£50billion dollars by June 1990 (Abdel-Khalek, 1992).

As a condition of this agreement, Egypt had to adopt World Bank and IMF instructions to transform and stabilise its economy, moving it towards dependence upon market control and trade, and encouraging privatisation. In short, after applying the SAP in an extensive and intensive way in the 1990s, the role of the GOE has since lost its two main components: its development and welfare agendas. This transformation of the role of the GOE has come about as a result of three pressures upon the Egyptian state: the external demands of international institutions and foreign investment, the severe deteriorating economic position and the Egyptian neo-interest groups, such as the businessmen who were integrated with the international capitalist market.

6.3 The implementation of structural adjustment programme (SAP)

The SAP was planned to be applied in different stages. The first stage related to monetary and financial reform, and aimed to decrease the deficit in the government's budget, which is generally considered to be the main reason for increasing the inflation rate (Kenawy, 2009). By achieving these operational objectives, the overall aim of stabilising the economy would thus be achieved. As Badran and Wahby (1996) indicate, the SAP helped this process by reducing portions of Egypt's external debt. The three-stage debt-forgiveness program resulted from the U.S. agreement, which cancelled all of the military debts that Egypt had accumulated from assisting America's effort in Iraq. Moreover, under the terms of this agreement, other states in the Persian Gulf also agreed to erase Egypt's debts with them.

President Mubarak referred to the *second stage* of the SAP, which focused on economic growth, as "*the stage of reaping the benefits*." It aimed to increase growth rates until they reached triple the 2.4% of population increase rate. In reaching this goal, the focus was upon developing production and accelerating privatisation. The following analysis of the programme is separated into two stages; the first stage and the second stage, based on the GOE classification.

6.3.1 The first stage of the programme

The main aim of the first stage of the SAP was macroeconomic stability or, in other words, stabilisation objectives in the first five years. The program introduced numerous reforms including: interest rate liberalisation, financial sector reform, reduction in price controls and subsidies, exchange rate standardisation, public sector reforms and foreign trade liberalisations. In relation to the Egyptian move towards a market-based economy; the main goal of the reform program was to: "*create an open, market-orientated, decentralised economy receptive to foreign direct investment and private sector participation*" (Ministry of Foreign Trade, 2004, p.8).

Thus, the first stage of the programme aimed to restore fiscal balance and to reorient both external and internal prices to more realistic levels, to liberalise the Egyptian economy. These economic liberalisation policies were agreed in exchange for a foreign debt relief package (Roquette and Kourouma, 2004). Economical indicators showed that the Egyptian economy suffered from a hyper-inflation rate of more than a 21%, which equates real interest rate to about minus 6%, and a large budget deficit of more than 20% as a percentage of the Egyptian GDP (Omran, 2001).One of the main achievements of the 1990s stabilisation part of the program was the significant reduction in the inflation rate, which fell gradually from 21.26% in 1989 to 7.6% in 1996, with occasional rebounds in 1995, as reflected in figure 6.4 below. During the first half of the 1990s, the Central Bank of Egypt (CBE) adopted a tight monetary policy coupled with sterilisation measures to neutralise the expansionary impact of capital inflows.

This resulted in the rapid accumulation of foreign exchange reserves early in the stabilisation program and reduced inflation expectations. As a result, the total foreign reserve has increased from US$3.6billion to US$21.8billion; an increase of more than

500%.This reflects the Egyptian policy to attract foreign currencies and exchange them with the domestic Egyptian pound, which meant more investment opportunities were available to foreign investors in Egypt during the period of the reform program. Looking at the budget deficit percentage, this has decreased from 18.2% to 6%, which indicates a sharp decrease of 60%.This demonstrates a significant improvement in the overall performance of the Egyptian government.

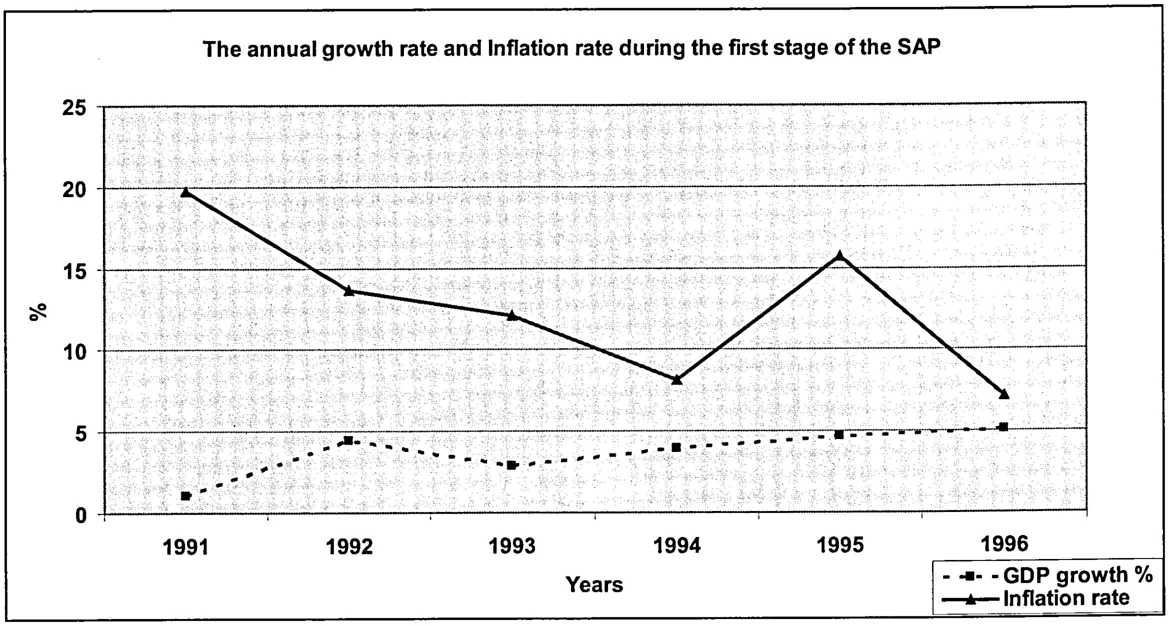

Figure 6.4: GDP and Inflation rate from the period 1991-1996.
Source: WDI

On the fiscal and financial front, the program produced remarkable macroeconomic results. The GOE took new steps toward achieving long-term macroeconomic stabilisation and strengthening the financial sector (see table 6.1). Egypt has achieved valuable results in decreasing its total external debt from US$49.2billion to US$26.6billion, a decrease of 46% which has been largely due to the debt forgiveness from the Gulf States, the United States and Paris Club rescheduling agreement (Omran, 2001). As a result of the decline in the total external debt, the percentage of total external debt to the GDP has decreased from 151% to 37.7%.This highlights the significant consequences of the decline of the external debt figures.

While the program was successful in reducing both internal and external imbalances, its impact on economic growth in the early 1990s was disappointing, as the program was unable to cause a rise in the average growth rate back to the pre- SAP levels. This is not really surprising. It has been shown that macroeconomic stabilisation and reform are necessary but not sufficient basics for growth alone (Fischer, 1993).After the sharp decline of the growth rate in 1991 following the stabilisation effort, the reform program managed to reduce macroeconomic imbalances and to establish conditions for sustainable growth. The growth rate of GDP picked up in 1995 to reach 5.1%.

Description	1990	1996
Total external debt	US$ 49.2 billion	US$ 26.6 billion
Total external debt as a % of GDP	151%	48.7%
Real interest rate	(6%)	5%
Inflation rate	21.1%	7.19%
Total foreign reserve	US $3.6 billion	US $21.8 billion
Budget deficit as % of GDP	18.2%	1.3%
Real GDP growth	3.6%	5.1%
Exchange rate per US$	1.55	3.391

Table 6.1: The first phase of the SAP economic indicators
Source: Central Bank of Egypt, the Egyptian Cabinet Information and Decision Support Centre (Cairo: CBE and IDSC, Various issues, 1990-1996).

Finally, the IMF itself noted and respected the achievements of the GOE on a financial and monetary level. According to a 1996 IMF press release, Egypt had improved public finances and made major advances in decentralising its economy during the first stage of the programme. Based on the above, one can see the overall positive effect the SAP had on the macroeconomic environment in the immediate period following implementation.

6.3.2 The second phase of the programme

While the IMF honoured Egypt's accomplishments on the macroeconomic stabilisation side, it noted the weak performance in terms of structural economic reforms. The IMF (1996) indicated that Egypt had not succeeded in achieving the level of reform that the IMF had anticipated.

The main difference between macroeconomic stabilisation and structural reform is that, while the first focuses on short term measures, the second is aimed at long term economic change. Structural reforms consist of a set of regulations and economic changes aimed at causing a fundamental change in the ownership structure of the Egyptian economy, where SOEs still account for one-third of Egypt's manufacturing and construction industries, 50% investment expenditure, and about 15% of total employment (IMF, 1996).

Structural reform includes promoting growth, investment, trade liberalisation, privatisation and employment. Its aim is to "*reduce transaction costs, enforce contracts efficiently, and restore flexibility in the labour and capital markets*" (Galal and Tohamy 1994, p.28). The GOE has sustained foreign trade liberalisation, mostly for the benefit of exporters and importers. The GOE reduced the list of commodities protected by import bans to a maximum limit 30% of industrial domestic output, changed the tariff structure so that the minimum tariff rate is 10% and the maximum 80%, eliminated non-tariff barriers, and removed open allocation of foreign exchange by the banking system (Abdel-Khalek ,1992). The main reason for deregulating foreign trade is to attract foreign capital investments and increase exports.

The Egyptian economy has been confronted with several external shocks during the second phase of the programme. From 1998, the growth rate started to decline due to the combined effect of three external shocks: the emerging market crises, the Luxor incident and the sharp decline in oil prices. These external factors put negative pressure on the current account in the balance of payments, further aggravated by external capital outflows. This was followed by the impact of the global economic consequences of the September 11 attacks in 2001. The situation was further worsened by the war on Iraq, the consequent uncertain political conditions in the region, and the sluggish overall global environment. This slowdown was evident in real sector indicators and in privately conducted business surveys (ERF and FEMISE2, 2004).

As reflected in Figure 6.5, the growth rate of GDP started to decline in 2000, and continued its downward trend until 2001 and further in 2002. The slowdown continued in 2002, approaching 3%. Economic activity in 2003 remained constrained by a shortage of foreign currency, inactive monetary policy, high real interest rates, and a depressed regional and global environment. GDP growth rate amounted to 3.5%, which is far below the Egyptian economy's potential, and what was required to reduce the unemployment rate and provide job opportunities to new entrants to the labour market.
At the same time, inflation declined in 1996, remaining stable for the rest of the second half of the 1990s, but started to increase again in 2003 after the devaluation of the Egyptian pound. A further increase in inflation was witnessed following the depreciation of the pound which accompanied its announced floatation in January 2003, resulting in a depreciation of its value exceeding 30 percent. These inflationary pressures were driven by the increase in import prices as well as negative expectations

regarding the stability of the pound. However, maintenance of explicit and implicit subsidies on several items mitigated the pass-through effect of the exchange rate. Increases in the inflation rate reached about 11.3% in 2003. Economic activity was constrained by a shortage of foreign currency, an inactive monetary policy, high real interest rates and a depressed regional and global environment.

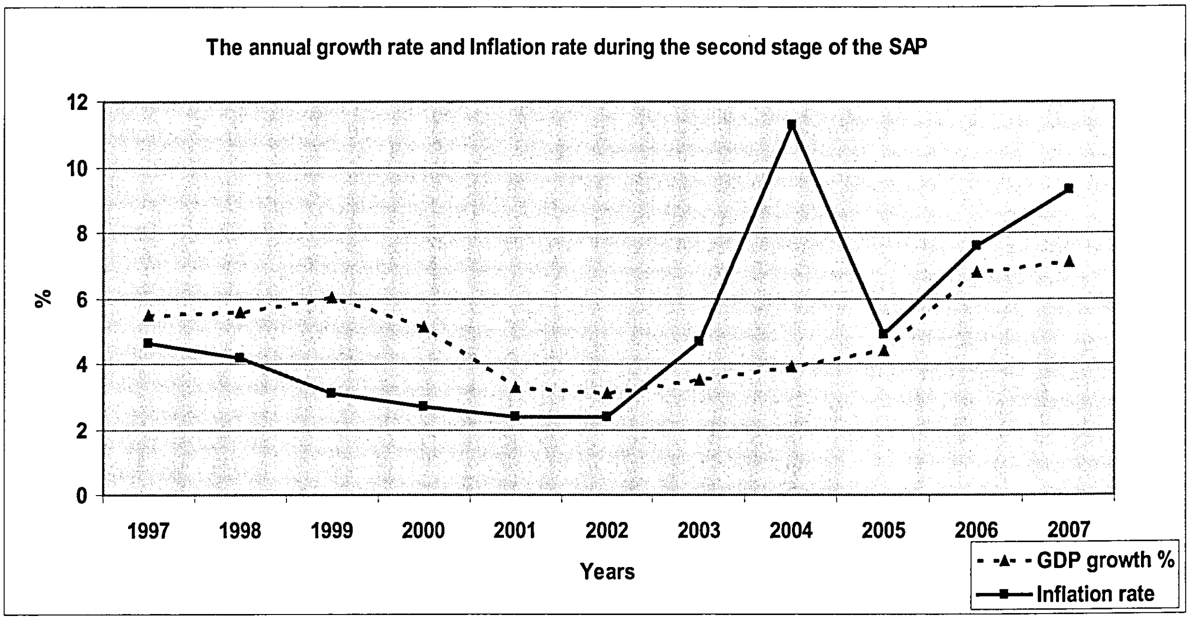

Figure 6.5: GDP and Inflation rate from the period 1997-2007.
Source: WDI

The serious drawbacks in the Egyptian SAP programme resulted in high inflation and a high budget deficit, and led to the development of a coherent monetary policy. A new governor of the (CBE) was appointed in December 2003 and an effective framework was established. To control the sharp rises in inflation prompted by the implementation of the floating exchange rate regime, interest rates increased. In order to control inflation, interest rates on T-bills increased to above 11%, having been down at 6.8% two months previously. Higher interest rates supported the Egyptian pound, and the gap between the official exchange rate and the black market rate diminished late in 2004. In 2005, market expectations on exchange rate movements relaxed. The pound appreciated from LE 6.25 per US$ late in 2004 to LE 5.75 by mid-2005. The rationale behind the introduction of the US$ interbank operation was to increase the supply of foreign currency and to contain perfectly the wedge between the official and the black market rates. In 2006, the official foreign reserves surpassed the 1996 level, amounting to US$22.4billions.

Because of strong monetary control, the inflation that had erupted over 2002, 2003 and 2004 started to relax in 2005 at 4.9% as against 11.3% in the previous year. However, GDP growth exceeded 4.4% in 2004, reaching 6.8% during 2005. The recovery has been driven by a rebound in tourism, increased export of goods and services, a moderate revival in consumption expenditures and a continuing fiscal expansion associated with a widening budget deficit. Unfortunately, budget deficit is still high, and represents 7.5% of GDP, which enlarges the total external debt to $29.9billion, about 23.7% of GDP at 2007 (see table 6.2).

Description	1997	2007
Total external debt	**US$ 26.8billion**	**US$ 29.9 billion**
Total external debt as a % of GDP	**37.7%**	**23.37%**
Real interest rate	**5.2%**	**6.1%**
Inflation rate	**4.1%**	**8.5%**
Total foreign reserve	**US $22.2billion**	**US $28.6 billion**
Budget deficit as % of GDP	**0.06%**	**7.5%**
Real GDP growth	**5.7%**	**7.1%**
Exchange rate per US$	**3.39**	**5.89**

Table 6.2: The second phase of the SAP economic indicators
Source: Central Bank of Egypt, the Egyptian Cabinet Information and Decision Support Centre (Cairo: CBE and IDSC, Various issues, 1997-2007).

The real GDP growth in the year 2007 was recorded at 7.1%, and inflationary pressures due to the pass-through effect of earlier depreciations of the currency were relieved. Public statements referred, in explanation of the rising inflation, to external factors associated with rising world prices of imports, the negative impact of the avian flu outbreak on domestic food prices and the probable "heating" up of the economy due to increasing GDP growth rates. The government tried to reduce the budget deficit through increasing revenues, such as Suez Canal and oil revenues, and reducing expenditures, such as reducing current expenditure and reducing new investment expenditure. Nevertheless, Egyptian's foreign reserve increased from only US$ 21.8billion in 1997 to US$ 28.6billion in 2007.

6.4 The process of social subsidy reductions since 1991

Continuing a trend that began with the open door policy, the GOE has discarded its dynamic role in relation to development, leaving this in the hands of the domestic private sector and to foreign investors. Concurrently, structural adjustment and privatisation has placed limits on the government's ability to support its citizens, leading to an extensive program of welfare system cuts. The main trend of the GOE since the application of SAP has been to reduce public expenditures and social subsidies, which sequentially has further distressed the living conditions of the vulnerable groups in Egypt (Kheir-el-Din, 2006). By downsizing social services and cutting subsidies, and simultaneously executing new laws which facilitate foreign investment and private sector activity, the GOE has renovated the nation's social structure. The benefits are felt by the private sector, new businessmen, and foreign investors, but come at the expense of the greater part of society.

Although the value of social subsidies and public expenditure has increased in real term figures, this does not mean that social subsidies and public expenditure have actually grown since 1991; on the contrary, both have been severely reduced as percentages of the GDP, as reflected in figure 6.5. As a percentage of the GDP, these programmes dropped over 11% between 1982 and 2005. For example, "*the commodity coverage of food subsidies has been restricted to popular bread, a limited quantity of edible oil and sugar*" (Kheir-El-Din, 2006, p.1). By 2005, government investment levels were reduced to one-third of the level that existed in the mid-1980s (World Bank, 2007). It is clear from these indicators that the main function of the GOE, (welfare programs and development) has been greatly minimised, thus creating new opportunities for the private sector and new interest groups.

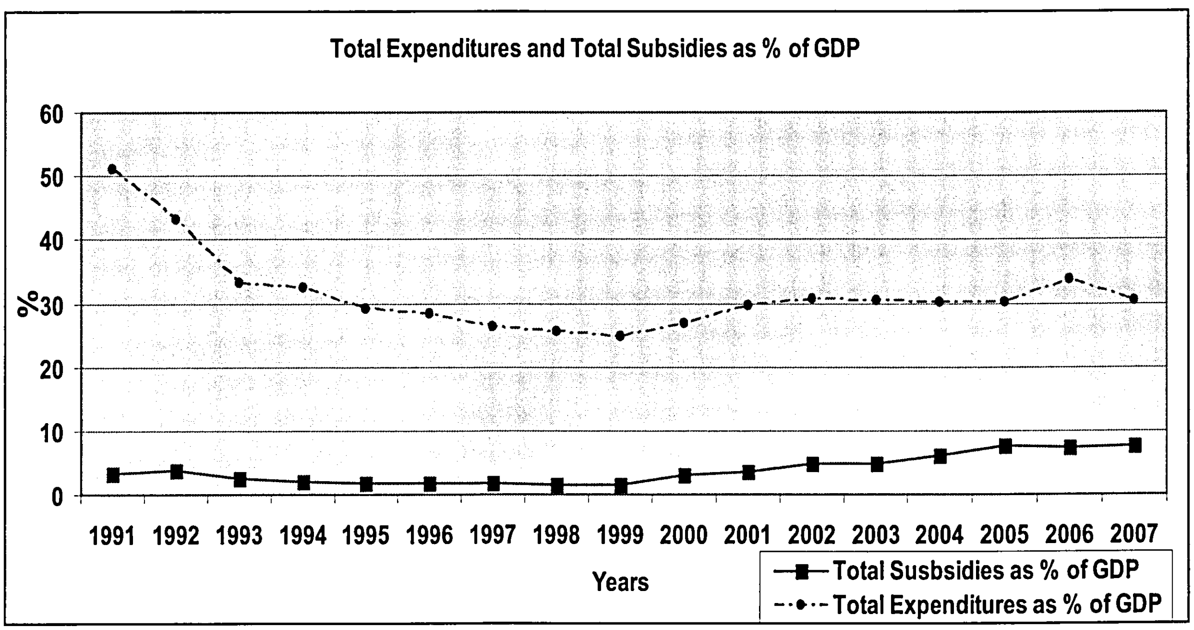

Figure 6.6: Total subsidies as % of GDP and total expenditures as % of GDP during the period 1990-2007
Source*:* **Central Bank of Egypt, the Egyptian Cabinet Information and Decision Support Centre (Cairo: CBE and IDSC, Various issues, 1990-2007).**

The World Bank (2007) shows the expenditure composition in Egypt from 1996 until 2006, including materials, wages, subsidies, interest payments on the public debt and pension fund contributions. This expenditure composition shows how the GOE has managed to keep its expenditures and subsidies almost stable since 1996. This is difficult in a country where the majority of family expenditure is accounted for by food. Food subsidies decreased by 61% between 1973 and 2002 (Farag, 2006). In 2005, overall poverty in Egypt stood at 19.56% using the absolute poverty line. It slightly exceeded the 1996 level after the economic decline in 1999, to 16.7%. Thus, almost 19.56% of the population in Egypt, or approximately 13.6 million people, could not achieve fulfilment of their basic food and non-food needs (Kheir-El-Din and El-Laithy, 2006). Not surprisingly, Egypt ranked at 97 among the top 100 poorest countries in the world (CIA World Fact book, 2010).

In short, the main activity of the GOE since the application of the SAP and privatisation policies has been to decrease public expenditures and social subsidies.

6.5 Privatisation of SOEs and the reduction of the public sector

Applying the SAP and effecting privatisation is not simply a technical issue of changing the economic system, but also a complex political and social process. Changing the legislation and structure of ownership leads to changing authority relations (Harik, 1997). Moving towards the privatisation and market system implies not only an economic change, but also an ideological and political shift. These changes lead to a restructuring of power relations not only between the state and society, but also among diverse interest groups. They adjust the dialectic relations among the state, the economic and social structure, and diverse interest groups (Richards and Waterbury, 1990).

One of the main components of the changing ownership structure of the Egyptian economy is the reducing role of the state through the acceleration of the privatisation of SOEs. Waterbury (1992) argues that, to understand the process of SAP led by the GOE, one should consider the central role of the public enterprise sector. The next sub-section is devoted to comparing the size and performance of the public sectors in Egypt since the implementation of the privatisation programme. Then, a brief overview of the Egyptian privatisation programme is presented, while the last part of this section outlines the institutional and regulatory frameworks for privatisation in Egypt.

6.5.1 The public sector in Egypt before the SAP and privatisation

The Egyptian public sector consists of four main institutions: service authorities, local government productive enterprises, public enterprises, and economic authorities. All these institutions are engaged in economic activities but the latter two institutions are the major players because of the extent of their contribution to the economy and their size.

The public sector historically dominated economic activities in Egypt for a long time. During the period between 1974 and 1986, the public sector accounted for 40% of GDP and controlled over 70% of industrial output, while the private sector controlled only 23% of industrial output (Tesche and Tohamy, 1994). Employment is another indicator of the growing size of the public sector. The percentage of population employed by the public sector increased from 2.2% in 1952 to 3.8% in 1970. By 1986, 10% of the population were employed by the public sector; which represents 35% of the labour force (Aly, 1992).

The GOE controlled all activities of SOEs in terms of employment, production, pricing, and raw materials. Managers of SOEs were appointed by the supervising Ministry, and had no authority to effect any changes in prices, output, wages or employment. Managers' rewards were not related to their performance; rather, their position depended on their political relationship with the regime (Ott, 1991). The Egyptian SOEs managers worked to achieve whatever social or political objectives the GOE had, and they therefore had no incentive to develop and improve the performance of their enterprises (Sherief and Soos, 1992). Even when the GOE tried to decentralise the decision-making process in the early 1980s by forming holding companies (HCs)[11] that were responsible for managing SOEs, the performance of the SOEs did not materially change (Naguib,2010). The board of directors of the HC was responsible for appointing the managers of SOEs. However, the board of directors of the HC itself was selected by the GOE, and the HC directors were themselves headed by the Minister of the relevant supervising ministry (see figure 6.6). The GOE was therefore still in control of the activities of the SOEs via the HCs (Ott, 1991; and Sherif and Soos, 1992). One might argue that rather than liberalising and decentralising the decision-making process, the changes actually served only to introduce even more bureaucracy.

[11] Six holding companies were created by Law no. 79 for 1983. They acted as a coordinating body between SOEs and the six supervising ministries (i.e. Ministry of Supply, Ministry of Industry , Ministry of Housing, Ministry of Defence , Ministry of Health, and Ministry of Economy) (Ott, 1991).

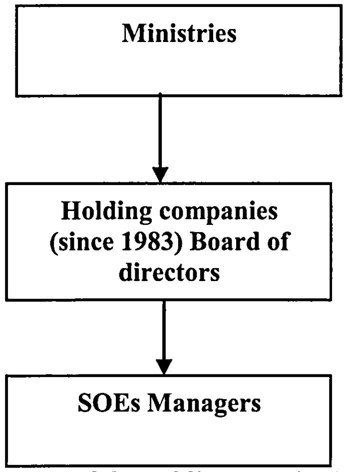

Figure 6.7: The hierarchy of control of the public sector in Egypt

Source: Aly (1992)

The GOE applied its pricing policy to grant implicit subsidies to the SOEs and to put the SOEs in a more favourable position in comparison to the private enterprises. This was achieved through categorising the SOEs output into 'non-essential' and 'essential' products. The prices of essential products were offered lower than the market value to ensure that they were considered reasonable by wider public. Price differential was certified for non-essential products, whereby public sector users were charged lower prices than private sector users (Ott, 1991).

The favourable position of the SOEs was further enforced by other laws and policies such as labour laws, trade policies, and exchange rate policies. In the 1960s, SOEs were completely protected by import-substitution policies and the GOE achieved self-sufficiency and served the domestic market (Ott, 1991). Export and import activities were entirely dominated by the public sector, while the private sector had to obtain its raw materials from the SOEs. After the implementation of the open door policy, although trade was partially liberalised, tariffs were still imposed on intermediate goods that were not produced locally and lowered on capital goods, while tariffs applied to luxury goods remained high. The private sector was allowed to participate in direct export and import activity, but was subject to some restrictions, for example, obtaining a license from the GOE (Ayubi, 1995).

The management of the SOEs and the protectionist policies based on socio-political criteria rather than on economic criteria adversely affected the performance of the public enterprises. SOEs were acquiring losses, and their deficit doubled from 3.9% to 8.4% of GDP in the period from 1973 to 1983 (Ott, 1991). Financing this deficit was achieved mainly by way of the government budget. The fiscal burden of SOEs on the GOE budget in the second half of the 1970s amounted to 30% of GDP (Ott, 1991). The other source of making up the SOEs deficit was via borrowing from national banks. During the period between 1974 and 1985, inflation rates were higher than nominal interest rates, which resulted in negative real interest rates. This motivated SOEs to borrow excessively (Sherif and Soos, 1992), and resulted in an increase in the public debt (Aly, 1992). The ratio of public debt percentage to GDP increased from approximately 17% in 1974 to 84% in 1985 (Ott, 1991).

SOEs also had access to foreign resources either through borrowing directly from foreign resources in the form of suppliers' or buyers' credits, or through borrowing from governmental funds that were initially obtained via foreign loans. With the first method, it was the responsibility of the SOE, while with the second method, servicing the foreign debt was the responsibility of the GOE. However, due to poor regulations and a lack of proper monitoring by the GOE on the direct borrowing of SOE, the debt servicing burden of many SOEs' direct foreign borrowing was in fact transferred to the GOE (Sherief and Soos, 1992).Therefore, the inefficient performance of SOEs had an impact on the external debt, whereby the external debt ratio reached to a level above 120% of GDP by the mid-1980s (Ott, 1991).

In conclusion, the poor performance of the SOEs added a huge burden on the Egyptian economy by the end of the 1980s and is considered to be another reason behind the implementation of the privatisation policy.

6.5.2 The history of the Egyptian privatisation programme

Officially, privatisation started in Egypt in 1991 when the GOE signed a letter of intention with the IMF in April, by means of which Egypt decided to apply the advocated policies of the SAP as mentioned earlier. The GOE utilised the public offerings method, via the Cairo and Alexandria Stock Exchange, in privatising their SOEs. The GOE launched several approaches to the divestment of SOEs. The first major approach was to sell shares through the domestic stock market. The second was to sell strategic stakes of shares to anchor investors through public auction. The third was to sell firms to shareholders associations (ESAs). Other less widely used methods employed also included the liquidation of some companies which were not deemed economically viable, asset sales, and leasing (McKinney, 1996).

The most popular technique of privatisation in Egypt during the period 1993 to 2000 was the sale of majority shares on the stock market, as shown by table 6.3. For example, in 1995, all relevant reported transactions by the Ministry of Public Enterprises (MPE) were in the form of sale on the stock market. However, the government also allowed FDI in the infrastructure sector by means of Build Operate Transfer (BOT) and Build Own Operate Transfer (BOOT) projects[12]. These projects are regulated by separate laws (Law 229 of 1996 and law 3 of 1997) than those that regulate the privatisation of SOE.

The Egyptian privatisation programme has passed through four phases between 1993 and 2006. During *Phase One*, from 1993 to 1995, the pace of privatisation was slow. The total number of companies sold during this period was 36, with total proceeds of L.E772.36million. As seen in Table 6.3, full privatisation of only 3 companies took place between 1991 and 1995; namely Coca Cola, Pepsi, and El Nasr Boilers, which all proceeded through a direct negotiation technique with strategic investors. In addition, batches ranging from 5% to 20% of the shares of various SOEs were sold on the Cairo and Alexandria Stock Exchanges, with others sold by majority to their employees. Companies which were offered via the stock market during the 1991 to 1995 period were the more profitable and successful ones. They were offered by the government at a discount, and in several cases the offerings were oversubscribed several times over.

In *Phase Two,* from 1996 to 1998, the pace of privatisation accelerated. The total number of companies sold during this period was 84, with total proceeds of L.E8298million.In 1996, a new Cabinet was appointed and began to spread the message regarding Egypt's privatisation of SOEs, which attracted international interest. To increase the supply of stocks on the exchange for the first time since starting the privatisation programme, the government sold more than 51% of its stakes in SOEs. As a consequence, the value of privatised firms accelerated significantly. As a result of rapid development of capital market systems, the privatisation programme became more accelerated during this time.

In *Phase Three*, from 1999 to 2000, the pace of privatisation slowed again. The total number of companies sold during this period was 56, with total proceeds of

[12]The government regards these operations as part of their privatisation program, as it opens a sector that has been dominated by SOEs to private participation.

L.E5143million. As highlighted above, during this period the Egyptian economy faced a number of difficulties which led to a reduction in the overall number of privatised firms. Therefore, these difficulties had a negative effect on investment in Egypt and the capital flow into Egypt. These were in addition to the sharp decline in the net demand from foreigners for Egyptian shares, whose prices fell sharply. Thus, by the end of the 1990s, some of the public offerings of privatised companies failed to be completely subscribed, reflecting weak market conditions.

To combat these difficulties, the Ministerial Privatisation Committee (MPC) announced, in mid 1999, the adoption of more market-oriented approaches to privatisation. This approach to pricing ensured the continued success of the privatisation programme. It should be mentioned that the majority of the privatised companies through 1999 to 2000 were sold to strategic investors rather than offered as IPO's, due to either the restructuring required to make them viable or the reduced interest of investors.

Year	Fully privatisation				Partially privatisation			Yearly	Total
	Anchor Investor	IPO	ESA	Liquidation	IPO	Asset Sales	Lease	Num.	Value[13]
1990	-	-	-	1	-	-	-	1	n.a
1991	-	-	-	3	-	-	-	3	n.a
1992	-	-	-	1	-	-	-	1	n.a
1993	-	-	-	6	-	-	-	6	n.a
1994	3	1	7	2	1	-	-	13	664
1995	0	14	3	2	6	-	-	12	1216
1996	3	14	-	1	6	1	-	25	2792
1997	3	8	3	3	2	1	1	27	3148
1998	2	-	12	6	1	3	-	32	2358
1999	9	1	5	7	-	4	6	31	2785
2000	5	-	-	3	-	6	10	25	2476
2001	4	-	1	2	-	3	1	11	1075
2002	-	-	2	1	-	-	-	6	51
2003	-	-	-	-	-	6	3	9	114
2004	3	-	-	11	-	-	-	14	928
2005	2	-	-	5	1	-	-	8	205
2006	3	-	-	4	-	-	-	7	185
Total	37	38	33	53	17	27	21	226	17997
%	16.3%	16.8%	14.6%	23.5%	7.5%	12%	9.3%	100%	

Table 6.3: The number and value of the privatised firms
Source: Egyptian Ministry of public enterprise sector, (2007)

Finally, in *Phase four*, from 2000 to 2006, the total number of companies sold during this period was 55 companies, with total proceeds of L.E2555million. The slow down of privatisation in the fourth phase can be attributed to the fact that the government was

[13] Millions of Egyptian pounds (rate 1 L. E. = 0.175 US$ as of December, 2006).

initially focusing on selling profitable SOEs, leaving it with a surfeit of loss-making or unprofitable SOEs during the latter phase. It was recommended that the remaining companies, especially the loss makers, should be restructured in order to increase their performance, and then offered for sale to anchor investors, with a greater focus on attracting FDI. However, the programme ground to a halt and almost froze in 2001 following the terror attacks on September 11. In 2002, few privatisation transactions took place in the Banking sector, and the programme reached another sticking point in 2007. The government is now thinking of distributing to citizens free shares in strategic SOEs in the industries of cement, steel, iron, transportation and tourism (Fraser, 2008). This proposal seems to be aimed at regaining people's support for the privatisation programme.

6.5.3 Institutional and regulatory framework of the Egyptian privatisation programme

The GOE took its time and spent the first two years in restructuring its SOEs and improving performance. There had been a constant division amongst government officials as to which SOEs should be privatised and by what method, which was partly influenced by personal objectives and a desire to retain office. There was also strong opposition from labour unions and the public towards privatisation, in some instances borne out of a fear of job losses. Such fears were in fact inevitable and justified, given that SOEs were over-staffing and that the GOE was not transparent in terms of how the process was carried out or how decisions were taken to privatise an SOE.

Opponents of the privatisation programme envisage that the programme will not achieve the purposes required for two reasons – firstly, the capitalist bureaucratic sector's desire to maintain its economic power base over the public sector and, secondly, the fact that private capital (local and international) has been reluctant to engage in production, essentially limiting itself to services or light industry and construction activities, where profits are high and risks at a minimum, with a consequently low value added to the broad society. Furthermore, the argument is that privatisation will make the poor poorer and the rich richer, due to the richest 20% of the Egyptian people holding about 75% of the general working capital, while the poorest 20% control only 3.5% (World Bank, Egypt, 1995).

The 1.3million public enterprise employees were the most significant political obstacle to the Egyptian privatisation process (Kenawy, 2009a). Workers perceived public sector jobs to be more secure when compared to those in the private sector, especially with the high rate of unemployment which was evident until 2007. Between 1990 and 1993, there was a reduction in the number of employees of approximately 29,000 workers. Although this decline was not statistically large (equivalent to only 2%), it caused alarm at that time in terms of concerns about future of employment in Egypt, given the continued increase in the labour force by more than 2% per annum, accompanied with the hesitant progress in the private sector, and its low profile in generating employment, despite various incentives which were provided to the sector.

The GOE decision to sell off SOEs led to numerous demonstrations and riots. Opposition parties and trade unionists set up various committees for the defence of the public sector. Reported strikes rose from 8 in 1990, to 26 in 1991, to 28 in 1992, and to 63 in 1993. In a major strike at Kafr al-Dawar in September 1994, three people were shot dead by the police and many others were injured (Kienle, 1998).

In short, a lack of unanimous political and public support for privatisation was one of the factors which influenced the slow pace of privatisation at the outset of the programme, and which surely had a considerable effect on the institutional and regulative framework of the Egyptian privatisation programme.

The legal framework for privatisation in Egypt is provided by Law 203 of 1991. Under this law, SOEs were re-organised as affiliated companies to 27 holding companies. Later, in 1993, the holding companies were further re-organised into 17 companies and then, in 2001, into 14 companies (Omran, 2004; Brindle, 1993). The continuous re-organisation and restructuring of holding and affiliated companies hindered the decision-making process and the implementation of privatisation, given that each new management had a different agenda for the privatisation of its affiliated companies. It was also confusing to potential investors, due to the complicated legal framework underlying the process, and the long and drawn out procedures involved in establishing new business.

By virtue of law 203, holding companies are no longer exposed to public sector laws or granted any governmental privileges. Holding companies (HCs) and their affiliates

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(AFs) are to work as commercial enterprises, setting their own policies. They are no longer subject to subsidies from the government and are authorised to make use of loans from commercial banks at the same rates offered to private enterprises. Subjects relating to employment, however, are still relatively tight (BETF, 2000).The management of affiliated companies are liable for operational activities, whilst the board of directors of the holding company appraises the performance of the affiliated companies and makes recommendations on possible improvements. Holding companies are liable for ensuring profitability to their shareholders. The HC is also responsible for appointing 50% of the board of directors of the AF, with the other 50% elected by the employees (Tesche and Tohamy, 1994). As indicated by Tesche and Tohamy (1994), one of the drawbacks of Law 203 is that "*the heads of HCs are government ministers*" (p.14), which reflects political influence on the activities of the Law 203, and therefore government intervention in economic activity.

Depending on which method of privatisation is used, an approval from the 'Ministerial Privatisation Committee' should be sought, for instance, in the case of selling to an anchor investor (PCSU, 2001). Holding companies are supported by other agencies and governmental bodies. For instance, The Public Enterprise Office (PEO) is an independent body allied to the Ministry of Public Enterprise Sector set up in 1991 in order to give technical advice on issues related to the preparation of attractive packages of an Initial Public Offering (IPO), or the preparation of any SOE for privatisation (BETF, 2000). Other technical support is obtained by means of technical advisory projects financed by international donors, such as EU and USAID (PCSU, 2001). The USAID acts as a long-term monitoring adviser and as a promoter for SOEs offered for privatisation to international business. The World Bank has also supported the Egyptian privatisation programme through extending loans for developing infrastructure and establishing a '*social equity fund*' to help people harmed by privatisation, for example, providing loans to small businesses, offering training programmes for unemployed graduates and retraining laid-off labour (Kikeri,1998; Sullivan,1992).

The complexity level of the privatisation procedures depends on the technique used. For example, if an affiliated company wants to lease part of its assets, then a decision should be made by the board of directors of the affiliated company. In contrast, if all the assets and factories of an affiliated company are to be leased, then the decision is left to the board of directors of the Holding Company (Naguib, 2010, Kenaw, 2009b). There is no certainty as to how long these bureaucratic procedures might take, during which period some market conditions or economic factors might change, which can affect the attractiveness of the SOE. Moreover, a lack of transparency concerning the criteria upon which different committees base their decisions discourages private investors, particularly foreign investors, from participating in the privatisation process (Naguib, 2009). In addition, in most cases, the anchor investor is faced with a number of specific requirements or restrictions. For instance, when the Egyptian Bottling company and the Nasr Bottling company were sold to Pepsi International and Coca Cola International respectively, the agreement provided that they must "*expand production, maintain present workforce, and to float 20% of equity on stock market ,and to offer 10% to workers within 2-3 years*" (Tesche and Tohamy, 1994, p. 17).

SOEs offered for privatisation may be 51% or 100% owned by the GOE. Both types of SOEs are exposing to Law 203 of 1991. When the GOE holds less than 51% equity in any privatised firm, these firms are subject to investment laws no. 159 of 1981 and 230 of 1989. Law no.159 of 1981 applies to both foreign and local private investors. This law regulates the procedures and rules which govern the scheduling of private companies, and it includes beneficial guarantees against expropriation and nationalisation, more tax incentives, and provisions for capital repatriation. However, it also brings about several restrictions, such as minimum requirements for the employment of Egyptian workers and their wages. In addition, despite the fact that foreigners may have 100% ownership of their projects, they are not authorised to own the land on which their projects are built. The implementation of this law is supervised by the General Organisation for Industrialisation (GOFI) (Ott, 1991).

Law no. 230 of 1989 aims to encourage private investment in new industrial zones and communities by giving more incentives to projects constructed in these areas than those concentrated in major cities or the old valley. Among the new incentives brought about by this law is the freedom of private companies to set their own prices. However, the law also provides discretionary power to the minister of industry and prime minister which allows them to interfere in a company's profit and pricing policies, and requires that companies allocate at least 10% of the profits to workers (Sherief and Soos, 1992).

Once the state's share in a 'Law 203 company' is less than 51%, the company becomes subject to investment law no. 159 of 1981 (see figure 6.7). One significant problem in this regulatory framework is that it is ambiguous under which investment law a fully privatised company will operate. One may argue that this diversity of laws means there is a restriction on foreign participation in privatisation. It is ambiguous which law regulates a company that has been fully privatised and sold to a foreign investor. If a foreign investor buys majority shares of an SOE, and the State's share is reduced to 51%, then the partially privatised company will be subjected to Investment Law 159 of 1981, which includes some restrictions on FDI. On the contrary, more privileges are given to foreign investors by law 8 of 1997. The most distinguished feature of this law is that it explicitly states that foreign investment is to be treated the same as national investment and, in this regard, foreign investors receive equal incentives as local investors.

The problem here is that participation in privatisation will not grant the foreign investor the privileges of investment law no. 8 of 1997[14], and hence it would be better for the investor to enter the market with a Greenfield investment. This might be considered one of the reasons behind the restricted FDI participation in the Egyptian privatisation program.

A further limitation in the Egyptian privatisation programme is that it progressed without the existence of proper regulatory bodies for post privatisation activities. For example, the regulation of the Cement Industry, considered the major supplier of the construction industry, is an important example of such limitations. The cement industry was dominated by more than a dozen of SOEs, with Suez Cement and Torah Cement representing the market leaders in early 1990s. In 1999, the GOE decided to privatise its SOEs in the Cement Industry. The GOE privatised 7 companies which represented two-thirds of total cement production in the economy, by means of selling controlling shares to multinationals. Unfortunately, the market did not have regulatory bodies which could ensure competition. The only regulating body was the Cement Industry Committee (CIC), whose main role was to control the cement prices in the domestic market. However, the CIC failed to prevent the formulation of collusion and anticompetitive

[14] Under Law no 8 of 1997, there are no explicit provisions that relate between privatised companies and foreign investment. In addition, with the way the incentives are formulated, one may conclude that it is applicable on Greenfield investment only. On the other hand, GOFI is the authority responsible for the promotion of FDI opportunities and implementing the provisions of Law no. 8 of 1997. While it is the holding companies in coordination with the Public Enterprise Office (PEO), as discussed earlier, that negotiates and organise the privatisation of an SOE. Therefore, there is no coordinating body that promotes both privatisation and Greenfield investment opportunities to the foreign investor (Naguib, 2010).

behaviour, and cement prices increased dramatically as a result of the lack of proper regulation. Although the GOE had been pushing for a legislation to promote competition and restrict monopoly in the steel and cement industries since 1995, it took at least 17 drafts and 10 years until the law was finally passed in 2005, and the resulting Egyptian Competition Authority (ECA) was created in 2006 (Ghoneim,2008).

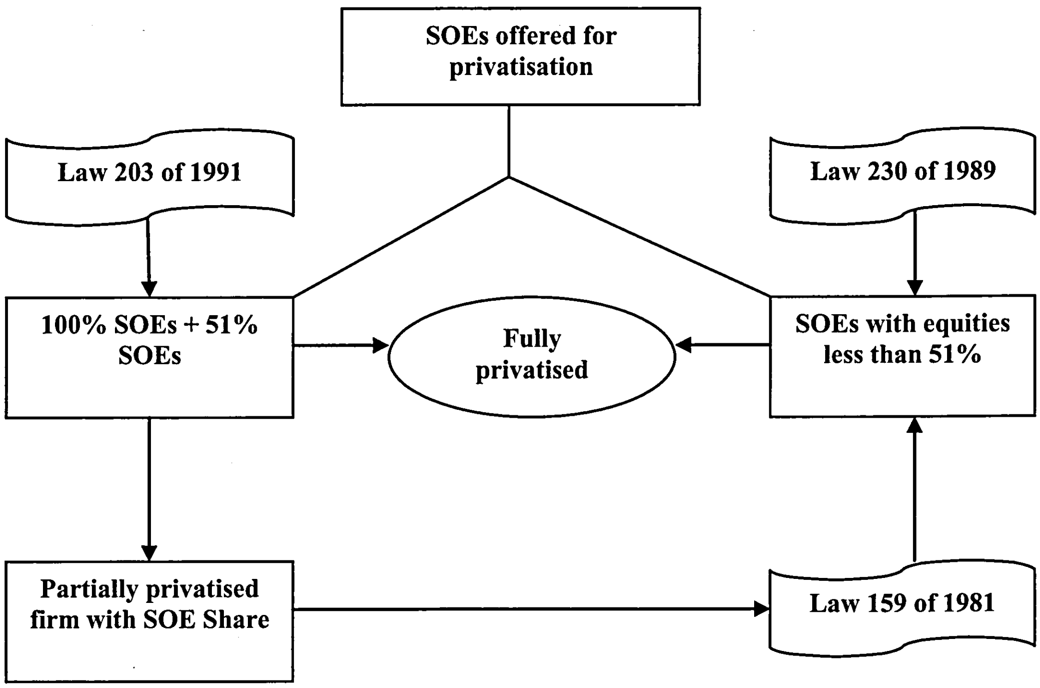

Figure 6.8: Regulatory framework of Egyptian privatised SOEs

Therefore, it can be seen that the privatisation programme in Egypt progressed without any regulatory agencies in place. By the time the process reached a halt in 2007, the GOE had only just started to create regulatory bodies. This contradicts the GOEs declaration at the beginning of the privatisation programme that the aim of privatisation was to increase competition in the economy and encourage the private sector. The fact is that pre-privatisation markets were still anticompetitive and monopolistic, which resulted in more anti-privatisation opinion amongst the public who viewed that privatisation served only the interests of a few local businessmen and was characterised by corruption and a lack of transparency. According to a study carried out by the Information and Decision Support Centre of the Cabinet, the Transparency index for Egypt is low (i.e. 4.9) compared to the transparency indices of other countries in the MENA region such as Turkey , Tunisia, Morocco and Jordan that are more than 5 (IDSC, 2004b). Furthermore, according to transparency international's corruption perception index (CPI)[15], corruption in Egypt is still considered relatively high (2008 CPI score of 2.9) compared to other countries in the MENA region, such as Tunisia (2008 CPI score of 5).

In conclusion, FDI participation in the Egyptian privatisation amounted 24% of privatisation total proceeds (Naguib, 2010). One may argue that the limited participation of FDI in the Egyptian programme was partly caused by the complexity of business establishment steps, the multiplicity of laws regulating FDI activities, the participation of at least two FDI regulatory agencies, and the failing of incorporating these regulatory FDI laws into the privatisation regulatory framework. Furthermore, investors complain of a lack of transparency and a high level of corruption .The process of privatising an SOE to an anchor investor highlights the lack of transparency and bureaucracy in the whole process. It also increases the possibility of corruption given the requirement of unanimous approval of all committee members, some of whom are both heads of governmental ministries and holding companies at the same time, which represents a conflict in interests and weak segregation of duties. In short, the lack of public support for the programme resulted from a lack of transparency, and the public believed that the process is corrupt and that only a few wealthy local business men were benefiting from the privatisation of the SOEs.

The Egyptian privatisation programme arrived at a complete standstill in 2007, and the GOE is now thinking of distributing free shares to citizens in strategic SOEs in the industries of iron, steel, cement, transportation and tourism in an attempt to regain public support for the government and privatisation.

6.6 Summary and discussions

The Egyptian economy, until the revolution on the 23rd of July 1952, was primarily a free market oriented economy. A transformation process across the Egyptian economy took place, shifting from a private property based economy to a public sector based economy, associated with a heavy impact on the state of the national economy. The GOE at that time implemented an *etatist* system, focused on increasing the volume of state investments and an orientation towards major economic projects to assure the infrastructure development and social welfare assurances. The open door policy focused

[15]Transparency International Website: www.transparency.org. The lower the score the more corruption is perceived. The maximum score is 10 and it reflects no corruption perceived.

on the attraction of FDI, and encouraged the private capital to develop an active role in the evolution of the national economy. Economic development during the 1980s was less favourable than during the 70s and the 60s, and the period was characterised by the emergence of severe economical and financial problems which had been hidden during the preceding period, particularly the growth of the external debt and budget deficits.

The reasons that persuaded Egypt to apply the privatisation programme correspond to the reasons that led to the implementation of such a policy in most of other LDCs. These are presented in chapter 2, and are consisting with the findings of, among others, Boardman and Vining (1989) and Galal et al. (1992), Perotti (1995), Megginson and Netter, 200 and Cook, 1986.

Firstly, *the poor performance of the Egyptian SOEs*, whose acquired losses and huge deficits doubled from 3.9% to 8.4% of GDP from 1973 to 1983. The fiscal burden of SOEs on the GOE budget had the effect of increasing external debts.

Secondly, *the financial difficulties by faced by the GOE,* who started the 90s with severe economic problems, including an increase in budget deficit, a high inflation rate, and a massive decline in international reserves.

Thirdly, *international pressures mainly from IMF and World Bank.* As a condition of the provision of financial aid from both aid agencies, Egypt agreed to the requirements of this agreement to transform and stabilise its economy by moving towards a reliance on market control and free trade, and the promotion of privatisation.

The *role of the GOE* has undergone major change since the introduction of the structural adjustment program in 1991. In general, these changes can be summarised under two main headings. Firstly, the GOE no longer concerns itself with economic development, the establishment of new industrial projects, or land reclamation. Secondly, it has gradually implemented an extensive program for cutting the welfare system. With this reduction in welfare programs, the GOE has conceded one of its main roles: that of the primary supporter of the most vulnerable groups in Egypt.

Despite the success that the SAP had on the Egyptian *macroeconomic* performance in the immediate period following implementation, the structural economic reform effect of the programme does not seem to have enjoyed same success as the stabilisation element of the programme. This could be partly explained by the several external shocks that hit the economy after 1999, the emerging market crises, the Luxor incident and the sharp decline in oil prices in 1998. This was followed by the global economic consequences of the September 11 attacks in 2001. The situation was further aggravated by the war on Iraq, the consequent uncertain political conditions in the region and sluggish global environment, in addition to the devaluation of the Egyptian pound resulting in a depreciation of its value exceeding 30%. Although the macroeconomic environment has progressed to some extent in Egypt, sequencing has been disordered and the process is still incomplete. In some respects, this has maintained structural rigidities and caused some serious misalignments, especially in the real exchange rate. A reordering of committed reforms is therefore required, most notably in the areas of exchange rate management and trade liberalisation.

Finally, it can be seen that the privatisation programme in Egypt progressed without any real regulatory agencies in place and, by the time it reached a halt in 2007, the GOE was only then just starting to create regulatory bodies. The programme was characterised by a multiplicity of laws regulating FDI activities, a lack of transparency, and widespread corrupted. However, the next chapter analysis looks more closely, from the privatised firms' perspective, at the way in which government policies, regulations and macroeconomic conditions influenced the privatised firms. The next chapter sets out an analysis of each company studied, focusing on a detailed description of the post-privatisation changes of MCS practices and firm performance.

CHAPTER 7
Cases study analysis

7.1 Introduction

This chapter sets out an analysis of each company studied, focusing on a detailed description of the post-privatisation changes of MCS practices and firm performance. Through discussion of the internal and external factors that affect privatisation, MCS change and firm performance in the Egyptian construction industry, the conceptual framework is a starting point of the analysis. In analysing the different cases, a standard format is applied throughout, in order to create consistency across the study. The basis for this standard format is the conceptual framework of the study. The values relating to the variables of the conceptual framework are described in the case of each company, and are based on an elaboration of the variables as discussed in Chapters, 2 3 and 4.

As previously mentioned, the conceptual framework consists of three main groups of variables: privatisation, MCS and firm performance. The relationship between these variables is mediated by external and internal factors. The inter-relationships between these three main groups of variables are the main focus of the analysis.

As set out above, the analysis for each construction company included is presented according to a standard format as follows. Firstly, a brief historical overview is presented for each company. Secondly, the effect of privatisation on the company are discussed, including issues such as the major changes which occur in the ownership structure and business and operation activities during the post-privatisation period. Thirdly, the MCS practices used prior to privatisation and the consequential changes occurring after the change in ownership are set out. This includes an overview of the activities undertaken and factors involved in planning and budgeting techniques, product costing and pricing, decision-making and internal reporting, cost control and waste minimisation.

Fourthly, an assessment of the post-privatisation firm performance is undertaken in comparison to the previous performance of the company during it's public ownership era. As mentioned in the methodology chapter, a variant of MNR methodology was adopted and used in this exercise. The analysis of firm performance in every case relied on five broad categories: profitability, efficiency, output, risk and employees' social responsibility. A set of thirteen financial ratios were grouped under these five main categories and used to examine the privatised firms' performance in each case.

The structure of each unit case firm performance analysis is as follows. Firstly, descriptive statistics are used to describe the basic features of the data for each main category, with the aim of giving a clear view of raw data. Secondly, if any variables are not normally distributed, the nonparametric Wilcoxon signed-rank test was adopted to test for significant differences in performance based on median values. In addition, the analysis employed the two tailed parametric t-test for significant changes in mean if the test for normality was valid.

The chapter concludes with a summary section including a tabulated summary highlighting the changes related to the MCS and firm performance for the three studied cases, thus showing the impact of privatisation on the MCS techniques and firm performance of each company. The companies studied indicated a preference to remain anonymous and, as such, they are referred to hereafter as companies A, B, and C. The identities of interviewees are also disguised. The sequence in which these three companies are discussed is completely arbitrary. Finally, each company is described in a separate section of this chapter.

7.2 Company (A)

The analysis of the first case, company (A), and each of the following cases, has the same structure. Firstly, a brief overview of the historical background of the company is given, followed by a description of the effect of privatisation in terms of change of ownership and other general changes consequential upon the transfer of ownership and control. Discussion in this section includes law 203, the date and method of the privatisation process of the company, and a general post-privatisation profile of the company. Secondly, an analysis of the relationship between privatisation and MCS changes is undertaken, taking into account relevant contextual factors. Finally, the impact of privatisation on firm performance is also discussed.

7.2.1Brief historical view

Company (A) was established in 1955 as a public sector construction company. Its primary purpose was the development of Cairo's Nasr City district for the GOE. During the 1960s, the Nasr City district was predominantly undeveloped desert land close to the heart of the Egyptian capital whose urbanisation was a main priority for the GOE program of infrastructural development. Following consultation, the company subsequently took on the responsibility of carrying out the urbanisation task (Egyptian Federation for Construction and Building Contractors (EFCBC), 2006).

The main activity of Company (A) is real estate development, including amongst other activities; land acquisition, the construction of residential properties, administrative and commercial housing units, and the subsequent sale and lease of the constructed units. In the first decade following its inception, the company successfully and dynamically achieved the agenda set out by the GOE to spearhead the district's urban development. This was a huge undertaking which resulted in the construction of an entire satellite city and comprised numerous building projects including the construction of 12,000 housing units for different income sectors, 68 schools, 7,600 separate parcels of land with fully installed utilities for the development of further housing projects, hospitals, land for shopping centres, police and fire stations, postal services and petrol stations. In addition, company (A) developed several sites for major GOE building projects, including the International Cairo Fair, Cairo Sports Stadium, Cairo International Conference Centre, and Ain Shams and Al-Azhar universities (EFCBC,2006)

As was the case with many SOEs, the firm was managed by the GOE, and the company's performance evaluated in accordance with its achievement against the national plan objectives. Company (A) was primarily responsible for providing housing at a reasonable price to low and middle income groups. Its participation in the provision of luxury housing was minimal. The firm's budget for the urbanisation project was part of the overall GOE budget, and its financial and operational performance was supervised by the General Egyptian Organisation for Housing and Urbanisation (GEOHU), who were was liable for the company directly to its line Ministry. Company (A) employed 4662 employees before privatisation, as a result of the GOE policy of assuring employment to citizens in the public sector (Central Agency for Public Mobilisation and Statistics (CAPMAS), 2008; EFCBC, 2006).

In 1993, the firm was pronounced a Law 203 company and was made an affiliate of the Holding Company for Building and Construction (HCBC). Law 203 aimed to set up SOEs for privatisation and provide an institutional framework to make SOEs more profit oriented, independent from their line Ministries at management level, and autonomous of government subsidies. Board and management restructuring following the acquisition of Beltone Investments Group in February 2000 extended the company total land bank to 8million square meters (sqms) (EFCBC, 2001). The development of Beltone Management provided a positive prospect for the company construction development, particularly in respect of luxury housing (Annual report Company (A), 2008).

Now in its private ownership phase, the company is considered one of the leading construction companies, and uses technologically advanced mechanisation to execute projects. The company has sophisticated facilities for the execution of engineering works, such as advanced quality control over its field activities and laboratory studies. In addition, the use of computers has helped develop the company's ability to analyse information in relation to various fields. With regard to developing labour and performance, the company provides permanent focused training courses for employees, alongside the most sophisticated international systems in the field of technology. The company has also increased its focus on computer science studies and foreign languages to maximise the export of its construction activities abroad (Annual report Company (A), 2008).

7.2.2 The effect of privatisation

In this section, the effect of privatisation is discussed in terms of the change from public ownership and control to private ownership, including the date and the method of sale. The general changes which occurred during the post-privatisation period are also examined, including management and operation profile, the new capital investment, and changes in the public sector corporate culture

Change of ownership and control

Founded on EFCBC (2001), company (A) was first offered to the public in 1996 as a majority IPO. The offering was for 60% of the firm's equity, but an under-subscribed offering resulted in just 55% of the company being transferred to the private sector. This included a 20% transfer to the employee stock association (ESA).

In February 2000, the company was acquired by the Beltone Investments Group in a strategic investor sale. This was the fifth such strategic investor transaction of the Egyptian Privatisation program. When the privatisation of the company was completed after the Beltone Investments Group finally gained control of the company, the official ownership structure of the company was as follows: 60% to the Beltone Investments Group, 20% to ESA, 9% to the Bank of Alexandria, 9%to Misr Insurance and 2% free floating equity(CAPMAS, 2008a;Privatisation coordination support unit (PCSU),2000).

A new Board of Directors was elected after the privatisation process, and the former Chairman of the Beltone Investments Group was subsequently appointed the Chairman of the company. Even though the Misr Insurance, Bank of Alexandria and the ESA all had representation on the new Board, the Beltone Investments Group has since that time held effective control over the company due to its majority percentage ownership. Following privatisation, the company's new corporate mission was officially pronounced to maintain its local construction industry dominance (Annual Report Company (A), 2001).

General post-privatisation profile

After gaining control of the company in February 2000, the Beltone Investments Group commenced the process of altering the firm's management and operational development. The Beltone Investments Group appointed twelve new executives, including six non-Egyptians, within the first three months of its take over of the company. Most of the appointments were made in the area of media and investor relations, marketing, human resources managements, export promotion and sales and contract management. These appointments reflected a renovation strategy at senior management level. Another 36 employees were also appointed to the company sales and contracting force. Although the majority of the firm's huge 4662 pre-privatisation workforce remained with the company, the Beltone Investments Group succeeded in eliminating much of the senior and middle management who were connected with soft budget constraint practices under the previous public ownership structure, thus facilitating the substantial restructuring of the former internal organisation and culture (Annual reports Company (A) various issues (1996-2008).

As showed from the interview with the HR Manager, the company also eliminated the public hierarchical organisation culture, whereby employees had been rewarded or promoted due to their seniority in the hierarchy, as opposed to the value of their performance. The Beltone Investments Group replaced the company's historical internal organisational culture with modern multinational management practices by establishing a Performance Evaluation System (PES). The system provided a defined job description for every employee and, by way of a series of bi-annual performance appraisal meetings between supervisors and employees, the progress of the entire staff was properly and quantifiably observed and measured, and employees were held accountable for their performances across the board.

The GM confirmed that management style was modernised to become consumer, rather than production, oriented. The new management developed the company's business primarily through corporate mechanisms such as promotions and marketing, standardisation and quality, and aggressive sales and contracting strategies attached to an expansion of the construction activities. Rather than release many of the superfluous workers, the Beltone Investments Group instead relocated workers within the company from construction activities to sales and administrative oriented functions. Employees were provided with suitable training to perform their new roles efficiently. A marketing department was established for the first time, with 2.5% of budget earmarked for advertising, publicity and promotional activities.

As explained by the retired GM: *'Before privatisation, there was inadequate profit to rationally consider capital investment'*. The GEOHU levied a 50% tax on the company's annual profits. From any residual profit, the GOE took 95%, leaving the only a small figure for expansion of the company's construction activities.

Derived from the official Annual reports of Company (A) various issues (1996-2008), when the firm was privatised, shareholders made an investment amounting to L.E87 millions, as a result of which capital injection the company was completely modernised. Machinery was updated and computerised. The firm's square footage was increased, with old buildings being upgraded and redesigned more efficiently. Accordingly, the quality of the constructed units produced by the firm improved enormously. The company developed a more keen focus on efficiency and quality, and became more cost consciousness. New machinery played a major role in helping the company achieve its new level of achievement, allowing it to manufacture better products and decrease the costs associated with the construction process. The company also relocated from its historic location in Nasr city, and developed new branches in Alexandria, Luxor and Herghada by the end of 2002.

There were consensuses from the participants that Beltone Investments Group also diminished the public sector "personality" of the company including, for example, replacing public sector management titles with standard private sector titles (sales and contracting manager, marketing manager etc). The HR Manager designated that the hierarchical promotion criteria and structure was changed to a meritocracy based system. The work environment became characterised by strict long hours, and there were higher salaries for middle management.

Overall, Beltone Investments made a significant effort to change the seniority based promotions system and public sector management titles, restructure the company's physical assets, and install a more traditional private sector work regime

However, it was observed by the researcher that some of the old attitudes were resistant to change. The GM, Financial, HR and Project Managers discovered it was a difficult task to promote some workers and employees on the basis of their contribution without causing offence to other employees, who were used to the old system. Managers found they were still operating within the framework of the psychological restrictions and assumptions brought about by the previous SOEs seniority based promotions system. While the general attitude of the interviewed senior accountant and construction worker towards the new system was not ameliorated by the continuing practice of paying low wages to them, who as a result did not feel that their integration into private sector practices would be possible, until their wages matched those paid to comparative workers by other multinational enterprises engaged in private construction business.

7.2.3 Changes in MCS practices relative to the influence of internal and external factors in company (A):

In this section, the impact of privatisation on the MCS development of Company (A) is discussed. The semi-structured interviews analysis includes an investigation of the changes in the their MCS activities, for instance, planning and budgeting, product costing and pricing, internal reporting and decision making, cost control, waste minimisation, and performance measurement and evaluation. The influence of internal and external contextual factors is also considered as part of the analysis.

Planning and Budgeting

Before privatisation, the GEOHU was responsible for drafting policies for all firms engaged in the construction industry. As said by retired GM: '*the policies were generalised and were not elastic enough to get used to the specificities of the firm*'. As a result, the company was forced to implement the GEOHU policies, even though not all were suitable and easily applied. By way of example provided by the retired GM, the company's sales budget was based on the national construction plan. If there were any problems with regard to the set budget, the company had to report to the HCBC, but the HCBC's response was regularly delayed, meaning that the company was left in limbo pending the communication of decisions from the HCBC.

The Financial Manager opined that the company was ordered to prepare a budget each year. HCBC recommended to the firm that it should set up its budget more frequently, so as to have more data on hand. Pre-designed forms were used to conduct budget estimates based on actual performance data from the most recent three quarters. The different departments organised and planned their budgets together, which were then all amalgamated and submitted in one report to the management. In addition, supplementary budget requests were made for new machinery, salary increments and the hiring of employees. The complete budget plan was then sent to the GEOHU via the HCBC. The budget plans submitted by comparable firms were compared and studied, and changes were regularly made to budgets prior to final approval. Any budget requests considered to be outside the scope of the national operational criteria were usually refused.

As explained by the Financial Manager, the subsequent execution of the approved budget was observed via quarterly reports. Each quarter, the company ordered its intermediate inputs and building materials in line with the approved budget. The company collected and compared offers from several suppliers. The supplier offering the best deal was selected, and the chosen offer was then sent to the HCBC for approval. If the HCBC approved the offer, materials were purchased in line with their authorisation. This process was strictly observed by the GEOHU, and the company were not authorised to make any disbursements that exceeded L.E200 thousand. Subsequent to each transaction, a cheque had to be signed by the finance head and the GM, after which it was sent to the HCBC. This procedure usually took a long period of time, depending on the numbers of cheques that HCBC were processing at any one time.

It is observed by the researcher that privatisation allowed the company to deal with its budgeting and affairs in an independent manner. Staff and department members all actively participated in presenting ideas about how activities could be realised, controlled and organised. Each individual department was liable for the way in which it carried out its duties. As showed from the interview with the Financial Manager, following privatisation, the company as a whole started with the preparation of a five year budget plan. During the preparation of the budget plan, it was possible to adjust and review it when necessary by comparing current sales and other data with those of previous years, in a way in which it had not been possible under the old regime. The budgeting process was considerably decentralised after privatisation. It was commenced from various different departmental levels, including unit managers, and was finalised at the heads level and the GM. The five year business plan was formed by setting the production target first. Once the production target corresponded to the Production Department, the budgeting processes could begin.

The Senior Accountant asserted that during the execution of the business plan itself, a number of additional matters were considered, including sales forecasts and the company's maximum production capacity. Every construction product line was allocated its own individual target. In preparing the budgeting plans for those product lines, the Production Department also kept in mind seasonal impact on sales and contracting activities. It further exchanged information with the Sales and Contracting Department, which in turn presented sales forecasts, unit and project daily progress reports back to the Production Department.

As noticed by the researcher through attending the quarterly meeting with the BOD, the Financial Manager presented the final budget plan. During the meeting, the plan was explained in detail and any queries from the Board were answered. In addition, performance reports which include volume variance analyses of sales, production, and day-to-day operations, were presented. If the Board asked for additional clarifications on audited financial reports, external auditors were requested. A debate was usually conducted to encourage suggestions for progress. It is generally opined by the GM, HR, and Financial Managers that these quarterly meetings were helpful in identifying timely solutions for problems, sharing ideas, and for getting instant feedback.

As opined during the interview with the Financial Manager, during the preparation of the budgets, the company used standard input requirements. It had detailed data of the standard amounts of intermediate inputs and building materials materials required for each unit, such as cement, steel, bricks, pipes and water. Alongside these data, raw materials, breakages and the consumption of chemicals were taken into account. At the inter-departmental level, plans were harmonised, bearing in mind all those costs factors related to establishing the overall budget, for instance; production, labour, purchase, fixed assets, and operating expenses. If modifications were added to the proposed budget in comparison to previous year's real amounts, these adjustments had to be highlighted and explained. Once the budget was approved, it served as an effective means of monitoring and controlling the firm's performance.

The main external factors hindering the realisation of the budgetary plans in the company were the huge fluctuations of land prices and the unexpected increase in the prices of steel and cement. The Financial Manager referred particularly to the sudden large scale auctions that were conducted by the GOE in June 2003, which were set up to sell large stretches of land in Al Sheikh Zayed, New Cairo and Six of the October cities. As said by the Financial Manager: '*Since these auctions, prices have been on the rise due to the strong participation of Gulf investors. Prices in prime locations, and even in new communities, reached the roof, and in some cases had multiplied by 100% from 2003*'. In addition, the increase of intermediate input and building material costs was another reported external factor which was raised by the Financial Manager. By way of example, cement reached LE 420 per ton, a 127% increase from 2003, and steel rebar reached LE 5700 per ton, a 145% price increase from 2003. The consequent impact of increases in building material prices on the cost of a residential housing unit was a 42% increase in the cost of each unit. Of this increase, the impact of cement prices was responsible for 13.8%, while the impact of steel prices accounted for 21.9% (EFCBC, 2008). The Project Manager added that from 2003 to the 2009, intermediate input and building material suppliers have provided just 24-hour offers of further price hikes, which is indicative of extreme volatility in the Egyptian construction industry. In light of these changes, the company now routinely re-conducts feasibility studies and re-estimates budgets to take account of these volatile changes in raw material prices.

Product Costing and Pricing

As opined by the Financial Manager the company classified costs into three main categories: overhead costs (OH), direct material costs, and selling and administrative costs. OH costs were divided into three sub-categories: production, sales and contracting, and administration. The company calculated product costs using a process costing method for each product line, and calculated the inventory costs through a weighed average costing method. The production costs were calculated per constructed square meters (sqms) and were reported on a monthly basis to the Accounting Department. The monthly OH costs were allocated and aggregated to every product line on the basis of output in sqms. Drainage and Waste costs were not treated separately, but included in the production costs. These wastages were attributable to expected routine problems in the mechanisation process. The Project Manager pointed to these wastages as unavoidable and knew the standard yield of cost of building per sqms. For example, in the housing product line, the unfinished cost of building ranged between LE760-1100, while the cost including finishing ranged widely at LE1100–1350 per sqms for the low-income segment, LE1350–1800 per sqms for the middle-income segment, and more than LE1800 per sqms for the high-income segment (Annual report Company (A), 2008). These prices tripled in the last seven years due to the significant increase in the cost of building materials, as set out above.

During the public ownership period, the company was affected by the HCBC price setting process. As opined by the former GM: *'The company was working to achieve whatsoever social or political objectives the HCBC set, and there was thus no incentive for the company to develop the product pricing'*. The HCBC applied its pricing policy to grant implicit subsidies to the company and other public firms, and generally showed favouritism for public companies over private enterprises. In accordance with HCBC objectives, the company was forced to focus on low-income segment housing and public projects, which affected its sales revenue significantly.

As confirmed by the GM, HR and Financial Mangers, the company determined its own product prices without any intervention from the HCBC after privatisation. The product price identified depended primarily on the type and the target segment of the units and projects.

Internal reporting and Decision-making

The retired GM affirmed that during the public ownership period, production reports did not include information about consumption of energy and utilisation of material resources. In addition, the reporting and recording procedures were not computerised, which caused substantial delays and risk of error. Under the old system, the reporting process began when the Finance Department sent initial reports to the GM about the company's cash movements through rough calculations and the provision of vouchers. The Accounting Department then collected these initial reports, and sent the company's official annual financial and statistical reports to the HCBC. However, as opined by retired GM: *'I could never be sure whether the HCBC actually viewed these reports, as we never received any sort of response'.* Completion of the annual reports usually took around two or three months, and was rather unsophisticated when compared with the current system. Due to a lack of computerised internal reporting systems, there was no available up-to-date information, if the same should be required in the interim between reports.

Anchored in the interviews with the HR and Project Managers, it was appreciably reported that after privatisation, employees were trained to work with computerised internal reporting forms designed by Beltone Investments Group. In addition, the formulation and description of tasks and duties became much more specified. The internal reporting systems became more sophisticated, and departments were linked together via a main centralised network. All departments sent the relevant information about the movement of building material resources and finishing units for their team to the Accounting Department. The Production Department prepared its reports every day, covering matters such as machine efficiency, labour, and the functioning of key construction machine parts. Information regarding the consumption of concrete, cement, steel, water, chemicals and timber was reported and evaluated. On a weekly basis, this information was sent to the Accounting Department. In addition, the Production Department distributed daily reports to the GM and all departments.

The GM also received daily performance reports on stock balance, production, sales and contracting, and quality control reports. In order to be kept informed about maintenance of the machinery, the GM distributed standardised forms to the Maintenance Department, which were completed and returned. Each month, the senior managers and GM held a meeting to discuss the departments' various action plans. The GM signified that: *'These meetings focused on the detection of problems and possible solutions, potential measures to improve performance, and suggestions for the future'*. The Chairman and BOD were able to observe and consider daily various activities, including managerial duties, on the basis of the daily reports submitted. They also received the monthly, quarterly and annual reports. It can be opined that one of the sound effects of privatisation was to bring together shareholders and managers, thus decreasing information asymmetry.

The senior Accountant stated that the processes for reporting and recording information improved as a result of the introduction of computers and new automated software packages. The new system was more user-friendly, and users were able to retrieve previous data easily, as well as conducting analysis and storing bulk data in an uncomplicated fashion. The keeping of physical files was considerably decreased. As supposed by the senior Accountant *'we initially showed some resistance to the new system, but such resistance faded with time, as we learned to understand the changes'*. The company further improved the communication process through the provision of internet facilities, a cable line in each office, an MIS unit in each branch, and a dedicated company webpage. Other means of modern communication included a fax, telephone and video conferencing facilities. A faster and more efficient exchange of up to date information was brought about as a result of these changes. The Beltone Investments Group was now much more information-oriented, and knowledge and expertise across the company as a whole increased considerably.

By computerising business processes, the company became capable of operating more efficiently. For instance, the physical general vouchers and register cards previously used by the Accounting Department were replaced with electronic documents that could be accessed and updated at any time. As said by senior Accountant: *'We had to arrange meetings with the warehouse head if records of building raw materials needed to be compared and cross-checked, which took a great deal of effort and time'*. Following the installation of the computerised systems, all documents were instantly available and could be sent quickly and directly to all parties concerned, who could review the information remotely, without the need for a meeting.

The GM designated that the performance of branch managers was also monitored by means of regular reports. The detailed level of reporting made control more feasible by way of the departmental restructuring initiated after privatisation. The Sales and Contracting Department based its monthly and annual reports on information collected each day regarding sales units and building materials used. These reports were sent to the GM and all departments. As noted by the Project Manager, '*Before, privatisation procedures for reporting and recording information did not exist. Now, we recorded the construction activities daily and if there were any problems, we could inform them more easily.*'

The Quality Control Department (QCD) also prepared daily reports, which had to be signed by the maintenance manager and construction manager before they were sent on to the GM. These reports smoothed the progress for the well-timed detection of problems and faults. Additionally, throughout the procedure, shift supervisors were immediately informed of any reported problems affecting their department. During the public ownership period, as said by the retired GM: '*the maintenance managers were informed of any problems in a memo produced after the event*'. Under the new system, paperwork was reduced and information was transferred more quickly between teams. In short, the intensive exchange of information through detailed and regular reports reduced the number of problems occurring, and improved the company's business operations.

The HCBC General Secretary indicated that during the public ownership period, the HCBC committee was generally responsible for the making of key decisions in relation to the company. The HCBC committee included the GM and senior managers of the company. Any matters of major importance had to be submitted directly to the GEOHU for a decision to be taken. The GEOHU not only determined the managerial performance of the company, but also controlled key sources of raw materials. On the other hand, the GM believes that privatisation lessened the political interference in the strategic decision-making process. It also resulted in the appointment of a BOD. The BOD was given responsibility for commercial performance and strategic direction, with incentives based on defined business-related performance indicators.

All these changes led to the development of managerial judgment in the entrepreneurship transformation. After privatisation, the organisational structure of the company tended to became more organic, and was flatter and decentralised. The improved communication process and effective coordination between departments, branches, individuals and units reduced the former bureaucratic rules. During various transitional stages, hierarchical structures were flattened noticeably, leaving only four or five levels in each different operational area.

Cost Control and Waste Minimisation

As opined by the Financial Manager the cost control for Company (A) generally focussed on three main categories: production overhead, direct labour, and direct materials. Before privatisation, the total actual direct materials and actual yield of building materials consumed was compared against pre-determined standards. The usage and storage of building materials was monitored systematically. Each building unit and construction project was assigned a pre-defined amount of building materials to be used. The unit OH costs were controlled on the basis of resources utilisation computations indicating the usage of the building materials.

After privatisation, the intensity of control increased noticeably. More consideration was given to cost analysis, by comparing the budgeted costs with the actual costs, and identifying justifications for any difference between the two. The Production Department systematically checked the construction process of each project as the project developed. In doing so, the company found that project locations often suffered power failures, which significantly affected both the product quality and the efficiency of the construction process.

The Project Manager emphasised that the principal types of building materials wastage were timber, and the concrete and waste sent for land disposal. In order to address this problem and reduce wastage, the company established a separate department known as the Environmental Management System (EMC), which had to report directly to the GM. The main function of this department was to minimise wastage of building resources. Following the establishment of the EMC, the usage of timber reduced significantly. The engineering team and workers were made aware of the self-regulated “green approach” followed by the company, and were expected to adhere to the same. More insight was gained into the actual causes of the wastage of building materials, against which appropriate measures could then be taken. The responsibility of the EMC was more extensive than simply monitoring wastage resources. The EMC also reported on any accidents suffered by employees or any health problems, monitored the distribution of the work clothes, and oversaw the work of the janitors.

Before privatisation, the company building machinery was defective. Spare parts had to be frequently repaired, and leakages as well as an excess wastage of concrete and timber were considerable problems. The Project Manager pointed out that, '*There was huge wastage of energy and resources, including water consumption, excessive usage of timber and waste of concrete. The Production Department developed an innovative design-build plan solution for the wastage problem. This plan was refused by the GEOHU.*'

After privatisation, additional insight was achieved into the root causes of the wastage problem. The causes were identified by the project manager as negligence on the part of employees, general poor maintenance, design errors, the company's manual washing bay, and an ineffective design of blocks and drywall systems. Significant effort was invested in making the employees aware of the wastage problem through, for example, regular meetings, internal and external courses and specific training.

It was generally opined by the GM and the Project Manager that the introduction of the EMS following privatisation reduced the usage of environmentally unfriendly materials and the wastage of resources and energy. For example, the Construction Department developed a new design for a single integrated roof system to span over three buildings, with an in-built ceiling for energy efficiency. Moreover, they automated the blocking process to give more precise standards, and improved the drywall system. Finally, it should be mentioned that the company developed their quality management policy and subsequently fulfilled the requirement of ISO standards over a five year period. The company acquired the ISO 9001: 2000 standard mark in 2005, which helped it to facilitate ongoing improvements. Despite all this, the Project Manager advised that much work is still needed to ensure the continuous improvement of the construction process.

Performance Measurement and Evaluation

During the public ownership period, neither the GEOHU nor the HCBC actively monitored the performance and profitability of the company. Their main concerns were overseeing the construction targets and public infrastructure projects as determined in the national plan. As noted by the former GM: '*The main difficulty faced us in trying to monitor the company's performance was a lack of updated information, which made it* *very hard to assert adequate control policies and take decisions in a timely fashion.*' This lack of information was caused by the manual processing of data as set out above and, consequently, financial reports were regularly delayed. The general structure of the company was internally hierarchical, in so much as employees were rewarded and promoted according to their seniority in the hierarchy.

After privatisation, it became regular practice within the company to undertake weekly and monthly volume variance analyses and bi-annual performance appraisals, as asserted by the Financial Manager. The Finance Department prepared monthly, quarterly, and annual performance reports for each expense and construction activity item. Real performance statistics were weighed against both the projected and previous year figures. In addition, the real use of building materials was compared with the figures budgeted. In these reports, potential variances were analysed. The reports were also used internally to identify vacant budget amounts and to allow the different departments to take corrective measures. The variance analyses and quarterly financial statements were sent to the GM and the BOD.

The HR Manager supposed that the company replaced the historical internal organisational culture with a modern multinational management system by introducing a PES. The PES outlined a job description for every one of the company's employees and, via a chain of bi-annual performance appraisal meetings between appointed supervisors and employees, the progress of the entire staff was controlled and employees held accountable for their performance. Each month, the employees' performances were evaluated. In the event that faults or errors were identified, employees were given an initial warning by their supervisor. If they did not address those issues so identified, employees then received a written warning. If the employee's performance did not subsequently improve after the issue of the warnings, the matter was referred to a higher level. The company would then take action in line with their HR policies, thus creating a more transparent system of discipline and reward. As pointed out by the HR Manager, '*The unit heads in charge should be unbiased and no one should be exempt*ed *when appropriate action should be taken. Sometimes there are complaints about workers who fail to share the workload equally with their colleagues in the building process. Such complaints are usually settled without involving higher authorities.*' The HR Manager's view on disciplining his workforce was that punishment did not essentially lead to correct behaviour and should only be used as a last resort. By utilising the system of warnings and appraisals, the company was able to address any problems with the workforce swiftly and efficiently, rarely having to rely on punishment of its employees as a deterrent measure.

7.2.4 Operating and financial performance of company (A)

The sources of data of privatised firms were collected from two sources: (1) the Public Sector Information Centre for the privatised firms in the pre-privatisation data; and (2) the Egyptian Capital Market Authority for the privatised firms in the post-privatisation period. In addition, key accounting data as well as annual reports were obtained from the following sources: Cairo and Alexandria Stock Market Exchanges (CASE) and financial year book (financial statements from 1985 to 2007).

In this section, a comparative analysis of pre- and post-privatisation performance of unit case (A) is presented. The statistical analysis of change in performance is presented for the company pre- and post the year of its privatisation. After setting out the financial and operating measures, the absolute and relative values to measure the performance of pre- and post-privatisation are then calculated. Descriptive statistics are then presented to describe the basic features of the data in the study without any effort being made to test a significant relationship. This process aims to give us a clear and unbiased view of the raw data. Subsequently, a comparative analysis between the financial and operating measures for the company before and after the privatisation date is undertaken, in order to reflect changes in performance by using appropriate statistical tests to find out whether or not these changes are significant.

Table 7.1 summarises the descriptive statistics for the accounting performance indicators of company (A) in the pre- and post-privatisation period respectively, including the mean, the minimum, the maximum, and the standard deviation[16]. Furthermore, the table presents the results of two measures used to determine whether the performance could be adequately modelled by a normal distribution;: standardised skewness and the standardised kurtosis.

[16] The standard deviation of a sample measures how observations are spread around the mean. Large standard deviation means the data are widely spread around the mean (Kvali, Pavur, and Keeling, 2006).

As shown in table 7.1, the mean values for the profitability, operating efficiency, output and employees social responsibility indicators increased after privatisation, while the mean values of risk ratios reduced. The standard deviation for post profitability variables are higher after than before privatisation, meaning that the profitability values become more spread around the average after privatisation. According to the values of standardised skewness and standardised kurtosis, all ratios are within the range of ±2, except for days of receivable ratio and training cost per employee. These two ratios, either before or after privatisation, do not tend to be normally distributed.

As shown in Table 7.2, the change to private ownership structure leads to profit maximisation, which becomes the dominant objective of case (A). All profitability measures are significant after privatisation. As the p-value for parametric t-statistics and non-parametric Wilcoxon signed-rank are less than 1 %, this means that there are significant changes in the means and the medians for ROA, ROE and ROS after privatisation. The ability of the firm to extract maximum output from any given level of input increased considerably after privatisation, as the output and income efficiency ratio increased at p-value less than 1%, while the sales efficiency increased at p-value less than 5%. Moreover, the injection of equity capital into the firm and the higher profitability resulted in a significant decrease in its credit risk. The total debt to total asset ratio and the long term debt decreased significantly at p -values 5% and 1% respectively.

Contrary to what was expected, the days of receivable ratio increased significantly after privatisation. The p-value of Wilcoxon signed-rank are less than 1%, while there is a non significant decrease in days of inventory ratio. Finally, the three ratios of employee's social responsibility increased significantly after privatisation. The total employment, bonus payment per employee, and training cost per employee increased significantly, and the p-value for parametric t-statistics and non-parametric Wilcoxon signed-rank is less than 1%.

Proxies	N	Means		Minimum		Maximum		Standard deviation		Standard Kurtosis		Standard Skewness	
Profitability		Pre	Post	Pre	Post	Pre	Post	Pre	Post	Pre	Post	Pre	post
Earnings before interest and tax to asset (ROA)	11[a]	.0471	.0850	.043	.065	.052	.129	.0026	.0224	-.283	-.069	.366	1.121
Earnings before interest and tax to equity (ROE)	11	.1290	.1495	.117	.120	.141	.180	.0071	.0189	-.543	-.746	-.020	.237
Earnings before interest and tax to sales (ROS)	11	.1469	.3081	.138	.233	174	.358	.0108	.0346	1.127	1.170	1.81	-.895
Operating Efficiency													
Sales efficiency	11	12.83	17.26	9.341	11.840	15.43	21.81	1.826	3.383	-.315	-1.316	-.440	-.405
Income efficiency before interest and tax	11	1.867	5.419	1.63	2.762	2.13	7.35	.1555	1.524	-.823	-1.029	.144	-.497
Output													
Real sales	11	49638	76911	36692	53096	62310	10010	6209	1448	2.548*	-.772	-.041	-.275
Risk													
Total debt to total asset	11	.14345	.09045	.124	.040	.174	.156	.0166	.0475	-.557	-1.95	.818	.350
Long term debt to equity	11	.2362	.0961	.210	.049	.257	.186	.0223	.0446	-.874	-.137	.679	.901
Days of receivable	11	167.6	280.5	141	261	273	299	40.82	12.26	4.372*	-.357	2.130*	-.084
Days of inventory	11	195.2	187.4	153	133	228	223	28.94	24.84	-.1098	1.140	-.199	-.895
Employees social responsibility													
Total employment	11	4647	4703	4596	4701	4675	4705	26.57	1.578	-.409	-1.823	-.905	0379
Bonus payment per employee	11	71.36	247.8	69	146	74	291	1.69	48.77	-1.726	-1.186	-.093	-.983
Training cost per employee	11	3.52	71	2	12	9	85	3.52	42.18	5.620*	1.279	2.13*	.381

***Out of range ±2, i.e., not valid for t test**

[a] the last 11 years of public ownership compared to the first 11 years of private ownership

Table 7.1: Descriptive statistics for the performance measures of company (A)

Proxies	Mean value before privatisation	Mean value after privatisation	Mean change due to privatisation	t-statistics for difference in Mean	Wilcoxon Z statistics change in median
Profitability					
Earnings before interest and tax to asset (ROA)	.0471	.0850	0.0379	5.872***	2.937***
Earnings before interest and tax to equity (ROE)	.1290	.1495	0.0205	3.811***	2.756***
Earnings before interest and tax to sales (ROS)	.1469	.3081	0.1612	19.743***	2.934***
Operating Efficiency					
Sales efficiency	12.83	17.26	4.43	2.947**	2.134**
Income efficiency before interest and tax	1.867	5.419	3.552	7.046***	2.934***
Output					
Real sales	49638	76911	27273	Not valid	2.756***
Risk					
Total debt to total asset	.14345	.09045	(0.053)	-2.839**	1.956**
Long term debt to equity	.2362	.0961	(0.1401)	-7.197***	2.934***
Days of receivable	167.6	280.5	112.9	Not valid	2.934***
Days of inventory	195.2	187.4	(7.8)	-.508	.445
Employees social responsibility					
Total employment	4647	4703	56	7.119***	2.936***
Bonus payment per employee	71.36	247.8	176.44	12.393***	2.934***
Training cost per employee	3.52	71	67.48	Not valid	2.943***

*****, **,* significance at 1, 5 and 10% respectively**

Table 7.2: significance of changes in the performance of company (A)

In short, Beltone Investments Group successfully altered the firm's management and operational development via privatisation. The company successfully eradicated the historical public hierarchical organisation, and developed business and operation through the use of a superior control system. This played a major role in the improvement of the company's MSC practices. The firm developed into an organisation particularly focussed on efficiency, cost consciousness and quality, which resulted in a clear improvement in its financial and operating performance.

7.3 Company (B)

The same analysis structure is used to examine Company (B) is used as for Company (A) as set out previously.

7.3.1Brief historical view

Company (B) was launched as an Egyptian Joint Stock Company by royal decree issued on 26 March 1951. Following its launch, the company was partially nationalised in 1961 as part of the nationalisation plan of the GOE, and was subsequently fully nationalised in 1963. In line with regulations of Law no 139 for 1964, the company was an affiliate of the Ministry of Construction and its business was managed for the GOE by GEOHU. The company participated in the development of the national economy within the framework of the GOE general policy, specifically in the fields of infrastructure and public projects. Its corporate mission was to increase employment. The company employed around 5000 people in the height of public construction projects of new industrial cities in the late 1980s and early 1990s, for instance, in El Sadat city and El-Asher city (EFCBC, 2006; AmCham, 2003).

Subsequently, the company became one of several companies authorised by the public sector for development. Recently, as a result of the law public works sector no.203, the company became a subsidiary company to the HCBC for two years in preparation for its sale. In 1996, the company was finally privatised via IPO majority selling practices (EFCBC, 2001). Since that time, the company has executed major projects in each sector, including 23 water disposal projects, 12 potable water instalments projects in new urban developments, 16 factories in October city, 2,000 units of public buildings, touristic villages and housing projects in Egypt, as well as similar projects in Saudi Arabia, Libya, Algeria, Kuwait, Oman and Emirates .However, even after privatisation some of the company's business was still restructured by the GOE. More specifically, the amount of land which the company could enlarge for luxury housing remained under GOE regulation. The company was still indebted to sell developed land to public organisations at a discount (Annual reports Company (B) various issues, 1996-2008).

7.3.2 The effect of privatisation

The discussion in this section follows the same pattern as the study of Company (A) above.

Change of ownership and control

In July 1996, the HCBC performed an IPO for a minority 20% of its equity in the firm through the Cairo and Alexandria Stock Exchange. However, the sale was over-subscribed three-fold, and the HCBC thus took the decision to offer 75% of the company's equity rather than the original 20%. In offering 75%, the GOE still reserved 25% equity in the company, which was represented by the HCBC share. This IPO transaction was the first majority selling transaction via the stock exchange in the Egyptian privatisation program (EFCBC, 2001).

The privatisation generated a diverse pattern of ownership in the company, with the main beneficiaries being the GOE (through the HCBC), banks, investment funds and insurance companies, the ESA and some individual Arab investors. The new ownership structure in the company after privatisation was as follows: HCBC 25%, association of 8 foreign banks 15%, ESA 10%, mutual funds 10%, Egyptian insurance company 15%, Egyptian bank 15%, one Moroccan individual investor 5%, and one Saudi individual investor 5%(EFCBC, 2001).

The new BOD was expanded to include ten members, with the HCBC taking three positions including the former Chairman, who retained his place on the Board after privatisation. One position heading was designated to a representative for each shareholder listed above. A de-concentrated ownership structure was apparent in the company, with the GOE remaining the majority single shareholder after privatisation. Although the company was hypothetically free from Holding Company interference after privatisation, the HCBC nevertheless had considerable representation on the company's Board of Directors. This scenario caused some dispute over the degree of independence of the company's Board of Directors in making major business decisions as would be showed further. Notwithstanding this concern, the private ownership model established by the company became was adopted by the majority of subsequent IPO privatisations which took place after the privatisation of Company (B).

General post-privatisation profile

It was observed by the researcher that there has been only a slight change in management strategies and personnel since the privatisation of Company (B). Most of the company's higher and middle management remained in situ following the company's entry into the private sector. There has been only modest introduction of novel marketing strategies, little adaptation of new technologies, and the "*old guards*" still maintain their senior positions within the company. By way of example, the Chairman has taken over the role of his father in the company, and the Financial Manager has now been with the company for over three decades. A patrimonial management style is still apparent, and promotion on the basis of seniority has remained the norm.

The relationship between construction techniques and management has not yet demonstrated noticeable change since privatisation. The main difference is that there are now fewer employees operating the construction process. This was primarily due to various employees having left the company as a result of the early retirement scheme adopted by the company (Annual report Company (B), 1997). Labour has decreased significantly after privatisation. Based on a time line analysis founded in company (B) annual reports (1996-2008), there were around 4600 employees within the company at the time of its privatisation, and there are only 3345 during the time of the study. Even with this decline in the workforce, the company remains overstaffed, and another 350 employees were expected to leave the company by 2009. The early retirement package has averaged a payout of around LE 23,600 per employee. Nevertheless, despite the lack of management reform following privatisation, the company still aimed to improve the quality of construction activities, as well as adopting new marketing strategies (Annual report Company (B), 2008).

The business of the company is relatively specific to public infrastructure projects, housing and land development, and the way in which the company has gone about performing its construction business has not differed significantly since privatisation. As opined by the Chairman, the management now generally has a greater freedom so far as decision-making is concerned. There are now fewer restraints on how much land the company is indebted to set aside for low-segment housing projects and raw materials procedures, given that most of the company's projects are focused on the high-segment housing market. The company does still engage in some low-segment housing development, but this is because a genuine market exists for this type of construction, rather than because it is bound by GOE regulations.

Derived from the company annual reports various issues (1996-2008), just over one third of the housing units developed by the company following privatisation were for the low-segment housing, with most of the land development projects profitable high-segment projects including the following:-

- development of the *El-shorouk a*rea ,a region of Nasr City originally intended to house some of New Cairo's diplomatic community, but devoted primarily to luxury housing, which generated revenues of LE 86 million;
- *Hayat Gardens;* a project which developed 1.6 million sqms of land for residential, commercial and service properties over a period of five years, yielding a turnover of LE 1.5 billion;
- *Al Wahabia;* development of 140 thousand sqms of land similar to the Hayat Gardens project, where revenues exceeded LE 350 million.

Interestingly, development plans for all of these projects were already in blue-print form before the privatisation of company (B) (Annual Report Company (B), 1996).

The Chairman asserted that the company was starved of new investments during its last decade of public ownership. New capital investment and upgrading machinery was an essential priority objective for the company after its privatisation.

The company now has it own fleet of construction equipment, steel shaping shops, various types of workshops, mobile and stationary batching plants. The main evidence of investment in fixed assets came about as a result of the company devoting L.E 50 million into a new branch in Sixth of October City. Construction of a new site in Alexandria site is currently in progress. In addition, the company has increased its capital base by reinvesting profit in the company, rather than distributing it by way of dividends to shareholders. This has worked to provide a much needed capital injection, and funds thus invested have been employed to finance some of the company projects after privatisation, including those major projects listed above. In this regard, the Financial Manager asserted that most of the company's new construction activities after privatisation have been financed internally. This was partly as a result of the fact that the financial consortium represented on the BOD was capable of taking the decision to inject new capital into the company when required.

It is observed by the researcher that there was little change in the corporate culture of the company, since the fragmented post-privatisation ownership base has seen the previous Chairman and his senior management retain control of the company. It can be said that at least the company is now less overloaded by excess labour and appears to be operating within a stricter work regime than it was before. However, many of the middle managers have reserved their public sector management titles, indicating that a hierarchical management structure is still in operation. There also remains a significant discrepancy in compensation packages as between the various levels of the workforce. On the other side, the Chairman believes that the company is now geared much more towards profit making than it was during its public ownership period, and there are fewer limitations placed on its ability to be profitable today than under the previous public structure. The company has also implemented training and vocational programs for its workforce, though these have been for the most part limited to simply training staff in performing their duties to a more professional standard.

7.3.3 *Changes in MCS practices relative to the influence of internal and external factors in company (B):*

In this section, the analysis follows the same format used to investigate Company (A) as set out at above.

Planning and budgeting

The retired Senior Accounted claimed that the company prepared its annual budgets on the basis of reports from each different department prior to privatisation. Sales and project contracting activities were estimated first, and set out in accordance with the national construction plan. The production volume was determined at 5% above the expected sales volume. Before being assembled into a single report, the individual departmental budgets were always discussed internally by the production and the project managers, the sales and contracting managers, the finance administrator and the GM. Following discussion, the final budget document was sent to the HCBC for approval, and thereafter defended by a representative of the company at a meeting chaired by the GEOHU. As opined by the retired senior Accountant: *'It was not difficult to achieve acceptance of the budget, on the condition that targets were higher than those for the previous period.'*

Following approval of the budgets, quarterly overviews were made of the figures, resulting in the production of schedules which were executed on a daily basis. Any deviation from the budget was generally due to the following factors, either in isolation or combination; water shortages, power failures, a shortage of well-trained skilled and semi-skilled workers, instability of work and/or an unexpected increase in intermediate input and building materials prices. However, even after privatisation, budgeting practices are still only performed loosely at top level, as mentioned by the Financial

Manager. The informal budgeting policy applied by the company mainly depends on factors such as competition, the number of contracting projects, and the tender offers accepted.

The Chairman of the company indicated that '*The Company should ensure equal participation of all department heads in the budgeting. This provides guidance for performance measurement, and enhances the formation of the resource consumption plan. At present, the company benefits from the awareness of the expected output units provided by a given construction batch. This knowledge helps in predicting the necessary input of raw material building materials, work force, construction time, and the expected duration of each project. This input-output association is used for planning and controlling the company resource consumption.*' With respect to planning, the Chairman explained that the Sales and Contracting Department prepare the annual sales forecast to be discussed in the shareholders meeting. However, this forecast is treated as the best possible estimate from which it is accepted the real sales figures might tend to deviate.

The retired senior Accountant further argued that the import of raw materials process was very complex during the public ownership period. A team consisting of representatives from the sales and contracting, production and accounting departments made their preferred selection from several different suppliers' offers, and the sent a report of the relevant offer to the HCBC. The HCBC then generally took three or more weeks to revise the report. The HCBC was allowed to make adjustments to the size of the order and/or request other sources of supply to save on building and materials costs. Furthermore, the HCBC was charged with approving the purchase order for the raw materials and evaluating the formal contract conditions. Because of this complex and lengthy procedure, the construction process was often interrupted by a shortage of building materials. However, the Chairman asserted that these bureaucratic obstacles were eliminated after privatisation. The Chairman and the BOD are now responsible for the purchase of the raw materials through their own means, without recourse to the HCBC.

The Chairman also revealed that the BOD aimed to develop the formal business plan of the company after privatisation. This plan included estimates for sales and contracting activities, land development and infrastructure projects, the requirement of raw materials and labour, as well as a strategy to enhance the firm's profitability. In addition, the firm was required to carry out assessments of the size of labour and inputs on a regular basis. The company's main focus shifted towards capitalising on labour efficiency, productivity and waste minimisation. In realising these objectives, it was difficult for the company to avoid the impact of external factors such as the increasing price of land. This has been so especially over the last five years due to speculation as well as the GOE regulation in managing their land assets.

It should be mentioned that, as shown in Company (B) annual report, 1997, even after privatisation, 25% of the amount of land the company could develop for luxury housing remained under state regulation. As a result, the company was still obliged to sell a proportion of developed land to government institutions and to perform public infrastructure projects at a discount, especially in the public infrastructure and public building sectors. One example of this was raised by the Financial Manager during the interview who pointed to the construction of a new branch of the GASCO Petroleum Factory in New Cairo City in 2001, including the construction of petroleum refineries and tanks, and public administrative buildings. Meanwhile, accumulated GOE debts owed to the company equalled L.E 46 million, which affected their budgeting and cash flows, and sometimes led to over drafting. As confirmed by the Federation(EFCBC) Public relation secretary: '*This problem was later resolved to some extent as the GOE entities met some of their obligations, and as a result of ministerial decree 219/2006, which predetermined that the company should obtain clearance from their financial controller before tendering*'. Nevertheless, the Financial Manager confirmed that the problem of compensating the company for these 2001 debts remains unaddressed.

In addition, the Sales and Contracting Manager referred as well to the unexpected and unjustified increases in intermediate input and building material prices, particularly steel and cement. Moreover, implicit costs associated with the time and effort wasted due to red tape and corruption still also affects the planning and budgeting activities of the firm after privatisation, making it short-term oriented in it's outlook and planning. When asked about past performance and future expectations in terms of the GEO involvement following privatisation, the Sales and Contracting Manager reported '*difficulties in dealing with post-privatisation legal procedures especially in acquiring construction permits*' as the most severe constraint affecting the company's long term planning and budgeting. The issue of construction permits remains a complex, lengthy and costly process.

In summary, several factors including the process of issuing construction permits, an increase in land prices, unjustified increases in raw material costs and accumulated government debts have hindered the firm in adopting formal budgeting techniques and prevented it from being in a position to undertake long-term effective planning.

Product Costing and Pricing:

Before privatisation, the company's accounting practices were based on a manual guide prepared by the HCBC in which the Accounting Department utilised absorption costing. As explained by the HCBC General Secretary: *'This method focused on the standard costs of building materials, labour and overhead'*. These costs were reconciled against actual costs at the end of each fiscal year. Operating expenses were kept separate, and OH was classified per department.

The Accounting Manager indicated that the costing process was still accumulated per department during the private ownership period. Actual costs were used for direct labour and building materials, and revised every quarter. The OH was based on a predetermined rate. An aggregate figure was then allocated to products on the basis of the output of finished units in sqms. As explicated by the Accounting Manager, the company had preferred the OH allocation system because of its simplicity and familiarity, although it was not an entirely accurate process. Therefore, the company elected to continue dealing with the costing process in a similar manner when it was publicly owned. The most important difference was that the depreciation expenses of construction buildings equipments were latterly included in the manufacturing costs. However, continuation of this practice reduced the accuracy of manufacturing costs information.

In addition, the Financial Manager pointed to the floatation of the Egyptian pound and its subsequent depreciation as against the US dollar in 2003 affected the accuracy of material cost records. The value of imported goods is recorded by home currency through the use of official rates when charging customs and use of such a policy undermines the cost principle resulting from loss on exchange. Before floatation, the difference in the actual amount of cash paid to import raw materials was not treated as an expense. The company was required to pay tax on the values difference, i.e. loss on exchange. Moreover, the company faced problems with income tax. When calculating the manufacturing costs for internal use, the company forced by rule to only recognised the costs of building materials, ignoring the additional factors of tax and exchange rates. On this subject, the Financial Manager indicated: '*It is illogical to ignore the actual costs, although the GOE does not want to accept this*'. The complex process of compensating the company for these unexpected increases in building costs by the GOE has not yet been commenced.

The Accounting Manager further accused the burden of sales tax and customs duties which affected the actual costing of the company. The company was required to provide the tax authority with documents on 93% of their raw material purchases. In most cases, traders of these inputs refused to hand receipts to the company, which resulted in the company bearing a higher tax burden. In addition to employee pensions and profession taxes, consulting offices also had to pay other fees unrelated to the constructing profession. In short, the loss on exchange and other hidden costs were not included in the manufacturing costs, which falsely reduced the actual cost, raised income taxes, and consequently affected the firm's profits.

The Marketing Manager emphasised that, following privatisation, the BOD has greater freedom to conduct pricing decisions and to decide how much land the company is obliged to develop for "low-segment" housing, since most of the company's projects are now focused on luxury housing market. The demand for the firm products have been elevated in this post-privatisation period, with units usually sold directly off-plan before their construction. The huge demand for luxury, middle and low segment housing is caused by the demographic characteristics of the country. As said by the Marketing Manager of the company, '*According to our SWAT analysis, the population growth, particularly in the youth segment, translates into higher demand for housing, constituting 82% of the 26.8 million total units in Egypt, where Egyptians are geared towards owning their own houses at 76% of total housing holdings.*'

However, even after privatisation, the company faced difficulties in focusing on customer satisfaction and keeping its business profitable. A senior employee from the Sales and Contracting department pointed out '*The low and middle segment housing is mainly threatened by both the actions of informal small competitors on the market and* *customer behaviour. The small competitors sell housing cheaper and are spoiling the market. The high inflation rate and the lower purchasing power of the Egyptian pound decreased the purchasing capacity of the producers and consumers in the industry. These factors have negatively affected revenues. In our culture, people are generally price-sensitive and do not care about finishing quality of the apartments they buy. This makes competition harsh'.*

In summary, it can be observed that competition within the industry is hindered by the increase in the number of informal small firms producing low-quality and low-price products. The Chairman, the Financial Manager and the Accounting Manager confirmed that competition activities among construction companies is based on low price and cost advantage strategies. Accordingly, competition results in a reduction in cost at the expense of quality. The company usually keeps prices low in order to win tenders, but these low prices expose the company to additional risk if/when building material prices increase unexpectedly during the period of executing the project.

Internal reporting and Decision-making

During the public ownership period, corporate profitability was not the main concern of the management, and the company was subsidised by 'soft loans' from public sector financial institutions. The company was obliged to send their monthly reports to the HCBC. The reports also dealt with matters such as construction, sales and purchases, but the HCBC did not make use of them for evaluation purposes. As reported by retired senior Accountant: *'These reports were merely used to provide the HCBC with an annual statistical outline of firm performance'.*

After privatisation, since the HCBC still had representation on the company's Board, the firm was still ordered to provide the HCBC with information, which had to be submitted by way of pre-designed forms.

The Financial Manager argued that the new management aimed to develop the internal reporting procedures, in order to carry out the task more smoothly. In contrast to company(A), Company (B) continued to adopt all the internal control procedures utilised in the public ownership period, such as the use of sales vouchers, raw materials requisition, contracting transfer forms, and units receiving notes. However, the company additionally introduced separate vouchers for raw materials; project location and other input items rather than using a single form for all items. In this way, the movement of building materials could be monitored in greater detail. All internal reports and forms were used to assist in performing a regular monthly analysis, and any necessary action was taken to investigate any considerable variances.

The focus of this monthly analysis was on sales and contracting trends, input levels, and productivity. Outcomes of actual activities were evaluated with those of previous periods to get a better insight into performance. Product line performance evaluations were based on inventory level reports, and weekly and monthly stock movements. The reports included information about the quantity of finished units, project due date submissions, and unsold unit items. The Financial Manager explained the reason behind using the same internal reporting mechanisms and the continued use of forms from the public ownership era, claimed that, '*the reporting instruments in position are well organised and no further improvements are needed.*'

There were some new forms and reports introduced after the privatisation as showed from the interview with the Accounting Manager. Every department had its own particular procedures and activities, and all reporting activities were computerised. The Production Department reported on the usage of building materials through consumption reports. The Sales and Contracting Department sent copies of the daily sales reports and sales and contracting invoices to the Accounting Department. The Accounting Department subsequently prepared two different monthly reports; one dealing with *'deposits payable income and units sales'* and the other with the *'project fulfilment construction stage'*. At the end of each quarter and at the end of the fiscal year, the information contained within the two separate reports was accumulated.

Furthermore, the Accounting Department prepared an annual graphic report on the amount of the actual sales revenue, plus information regarding the actual construction volume specified for every unit and project type. These reports were presented to the BOD and served as guidelines for the company management. Moreover, the QC department performed various tests on the constructed units and devised safety criteria for public infrastructure projects, such as waste water treatment, plants pump stations, pipelines, and pipe networks. The QC department also prepared daily reports, which were sent to the Chairman.

On the other hand, the retired senior Accountant asserted that the decision-making process during the public ownership period was characterised by rigidity and inflexibility, especially at the senior levels. Titles used at management level identified senior positions, and appointments to senior and middle level management were made mostly on a political basis. Promotions were made on the ground of seniority rather than on sound work based performance criteria. Public sector labour laws safeguarded employees from being unfairly dismissed but, given the lack of significant wage incentives for employees and workers, there was a high level of anxiety associated with work performance.

The senior Accountant further indicated that *'subsequent to privatisation, the BOD became the core decision-making entity in the company'*. They had an extensive amount of freedom regarding hiring, salary scaling and firing policies. The BOD could take action as and when required and was able to make rapid decisions. In addition, the shareholders played a dynamic role in relation to the management of the company. They were kept up to date with the latest information on all relevant subjects, and were included in the decision making process.

In summary, privatisation offered the company's management more freedom to implement its own decisions, resulting in improvements in productivity and market share. The quality of the units produced and the company's competitiveness were generally stimulated.

It is observed by the researcher that due to the IPO method employed in the sale of the company, the stock market naturally played a role in obliging the company to disclose all material issues regarding business operation. Therefore, stock market regulations to some extent exerted additional influences on the decision-making process. It was reported by HR department employee that the BOD appointment post-privatisation was based on professionalism criteria such as experience, business reputation, and quality improvement. These criteria were believed to be a secondary factor in making the company operates to a stricter work regime than it had under the public sector.

On the other hand, it was also observed by the researcher and even showed from the themes of the interviews, more specifically with lower level employees, for instance, the HR department employee and the construction engineer, both reported that the relationship between higher management levels and the lower department layers has not yet showed any visible difference since privatisation. Although the literature suggests that privatised SOEs generally become more decentralised, this was not the case for Company (B). There has been only a slight change in the decision-making hierarchy and empowerment of first line employees in the company. Some of the company's senior and middle management have retained their positions since the company privatised. They have insisted on the maintenance of their authority and have so far refused to delegate any of their responsibilities to lower levels. This behaviour has been explained by the Chairman and the Financial Manager as the need for quick decision-making and strategic direction from the top down. It may also be partially clarified by the researcher as the nature of the work culture in the country, and the long period of time that the company spent under a centralised system.

Cost Control and Waste Minimisation

The Chairman opined that:'*During the public ownership period, the company had generally been characterised by inefficiencies due to dependence on subsidies, overstaffing, poorly managerial incentives, and an absence of competition. Internally, the company was irrationally overstaffed, with approximately three times the number of employees actually required.*' In order to address this, cost control practices were the most frequently observed sources of MCS improvement after privatisation. The number of employees was reduced significantly after privatisation. Labour costs were further controlled by keeping the workforce small but effective through the use of job assignment plans. As a result, a significant increase in productivity was achieved.

However, there were reported external constraints raised by the Financial Manager, Accounting Manager, and HR Manager during the interviews sessions, for instance; impeded cost control and productivity in the company such as the high cost of borrowing, the impact of government regulations, and a shortage of engineers and consultant engineers specialised in key areas, especially in piping and chemical engineering. Although there is generally an excess of non-technical, unskilled and semi-skilled labour available at low cost in the construction industry, the lack of trained labour in certain areas of specialism remains a constraint. Even if such trained individuals can be identified, they are able to command a premium in high salaries and remunerations due to their scarcity. This constraint affects the unit labour cost in the company and consequently the firm's performance. As opined by the HR Manager, '*We* *have shortage of well-trained skilled and semi-skilled workers, such as supervisors, and a lack of highly specialised technical labour'.* Despite the large number of workers employed by the company, a considerable amount of the workforce lack expertise and international exposure. The last few years have witnessed a further scarcity of skilled engineers caused by excess local and Arab demand, coupled with the preference of many engineers to work in other more lucrative fields, for instance in IT and Petroleum companies.

As opined by the Accounting Manager; *'since privatisation, the company has tried to exercise control over its resource consumption and acquisition of building materials as efficiently as possible by means of the utilisation of internal documents'*. Knowledge has been obtained from the standard input requirements and input and output relationship. Before purchasing its building materials, the company always checks their quality, brand, transportation costs and intermediate input and building material prices. The latter was directly affected by inflation and flotation of the Egyptian pound, which undermined the company profit. In dealing with this problem, the company selects reasonably priced raw materials of adequate quality, rather than top quality items. Thus, a balance can be achieved between quality and competitive prices.

In addition, the construction engineer asserted that the major waste minimisation strategies performed by company since privatisation has resulted in minimising the consumption of water by approximately 20% during building and construction activities. The company has added new strategies to its mechanisation for executing projects, for example, avoiding wet trades and installing an automating washing bay. They also save water during the builds by collecting and storing rainwater for use on landscaped areas.

In summary, new measures were introduced for monitoring the cost of constructed units required as well as minimising raw material wastage after privatisation. It can be said that the issues highlighted above were not given enough thought during public ownership period.

Performance Measurement and Evaluation

As with Company (A), the HCBC did not provide Company (B) with any feedback on their reports during the public ownership period, in either their interim or their year end reports. Rooted in the interview with the retired senior Accountant; after privatisation, the company introduced adequate procedures for monitoring its labour, production and business processes. Sufficient information about intermediate input, building material requirements and expected outputs were available to all production lines. Productivity was evaluated on a weekly, monthly and annual basis. The inventory was annually verified and evaluated by a group consisting of the heads of Sales and Contracting, Production, and Accounting departments.

The Financial Manager further accentuated that the sales performance was assessed through weekly, monthly and annual reports. This assessment focused primarily on trend analyses, in order to achieve a good match between production and sales. In the case of any anomalies, the department concerned was investigated. Decreasing sales figures may, for example, have been caused by a decrease in the quality of the units produced, unrealistic high prices, or inefficiency within the Sales and Contracting department. By investigating and monitoring anomalies, the precise cause of the difficulty could be established. Approaching clients and contractors for feedback was another key part of the company's investigation into any discrepancies. Further, investigations included departmental meetings, SWAT analysis and market surveys, by means of which the company performance standards could be discussed. Another control measure introduced was the commencement of monthly shareholders meetings with the BOD. This meant the shareholders were able to actively participate in the evaluation of the firm's performance and to assist in deciding on appropriate instructions and guidelines to be set out for the company.

Alongside the above-mentioned performance control practices, the BOD also received quarterly analyses of performance such as financial statements, profitability reports and overviews of sales and contracting activities. However, the HR Manager informed that: *'provision of these reports was frequently delayed by two months as a result of a shortage in qualified accounting personnel'*. The lack of suitably qualified staff was as a result of the high levels of workplace informality and instability of work within the company. After privatisation, the majority of the newly retained employees were employed on a temporary basis. These new employees lacked adequate experience and needed some time to properly learn and engage with the systems. As a result, the company did not always have the necessary amount of accounting information required to fully evaluate performance. This situation led to the HR Manager clearly expressing a need for fulltime permanent staff. The staffing problem was also made more acute by the poor and inefficient system of public vocational education and vocational training centres in place at the time, together with a lack of private training centres in the industry, all of which made the retention of appropriately skilled accounting staff difficult.

7.3.4 Operating and financial performance of Company (B)

As shown from table 7.3, the mean values for profitability increased slightly after privatisation, associated with higher values of standard deviation. This resulted in higher values of standard kurtosis than in the pre-privatisation period. Profitability ratio data before privatisation had a distinct peak near the mean, declined rather rapidly thereafter, had heavy tails and were not normally distributed. Therefore, only non parametric Wilcoxon Z statistics tests were performed in respect of the profitability ratios. The means of operating efficiency ratios and output increased after privatisation. While the risk ratios showed mixed results as the total debts to assets, long term debt to equity, and days of inventory slightly decreased, the days of receivable increased and tended to be not normally distributed as well, as the value of standard kurtosis was equal to 2.342. The means of employees' social responsibility proxy indicated that total employment decreased, while benefits and training cost per employee conversely increased. In terms of the values of standardised skewness and standardised kurtosis, all ratios were within the range of ±2, except for days of receivable ratio and all profitability ratios, thus the parametric t-statistics test was not considered a valid test for these ratios.

As shown in Table 7.4, the change to private ownership structure led to non significant change as confirmed by Wilcoxon Z statistics for median changes. Although the operating efficiency ratios increased significantly, the sales efficiency and income efficiency ratios increased at p-value less than 1% and 5% respectively, meaning that these results should be taken in with caution.

								deviation		Kurtosis		Skewness	
Profitability		Pre	Post	Pre	Post	Pre	Post	Pre	Post	Pre	Post	Pre	post
Earnings before interest and tax to asset (ROA)	11[a]	.03882	.04209	.024	.033	.046	.049	.00609	.00490	2.898*	.198	- 1.539	-.876
Earnings before interest and tax to equity (ROE)	11	.12191	.13391	.082	.109	.137	.155	.05139	.01467	4.484*	-.218	- 1.983	-5.89
Earnings before interest and tax to sales (ROS)	11	.15218	.16018	.104	.137	.171	.173	.01801	.01070	5.557*	1.360	-2.11*	-1.32
Operating Efficiency													
Sales efficiency	11	8.357	11.987	7.269	7.788	9.211	16.345	.67486	2.6425	-1.251	-.956	-.459	-.012
Income efficiency before interest and tax	11	1.279	1.933	.755	1.071	1.575	2.830	.22862	.49093	1.815	.067	-1.17	.030
Output													
Real sales	11	32228	45413	28188	33823	36555	52144	2471.8	5490.8	-.378	.688	.347	-.847
Risk													
Total debt to total asset	11	.19891	.19700	.159	.161	.251	.254	.0300	.0303	-.790	0.610	.462	.611
Long term debt to equity	11	.39091	.38355	.297	.301	.518	.511	.07105	.05930	-.750	.991	.521	.940
Days of receivable	11	252.57	254.45	244	225	275	283	9.318	17.037	2.342*	-.386	1.39	.139
Days of inventory	11	277	276	256	265	298	290	11.018	8.992	1.050	-.979	.050	.518
Employees social responsibility													
Total employment	11	4518	4088	4356	3345	4602	4554	83.762	466.32	-.270	-1.533	-.876	-.620
Bonus payment per employee	11	90.9	129.18	78	124	119	136	15.764	4.708	-.699	-1.173	1.062	.704
Training cost per employee	11	4.47	21.08	4	7	6	37	.608	12.359	-.349	-1.876	.296	.416

***Out of range ±2, i.e., not valid for t test**

[a] the last 11 years of public ownership compared to the first 11 years of private ownership

Table 7.3: Descriptive statistics for the performance measures of Company (B)

Proxies	Mean value before privatisation	Mean value after privatisation	Mean change due to privatisation	t-statistics for difference in Mean	Wilcoxon Z statistics change in median
Profitability					
Earnings before interest and tax to asset (ROA)	.03882	.04209	0.00327	Not valid	1.425
Earnings before interest and tax to equity (ROE)	.12191	.13391	0.012	Not valid	1.778
Earnings before interest and tax to sales (ROS)	.15218	.16018	0.008	Not valid	1.072
Operating Efficiency					
Sales efficiency	8.357	11.987	3.63	3.659***	2.578***
Income efficiency before interest and tax	1.279	1.933	0.654	3.069**	2.401**
Output					
Real sales	32228	45413	13185	6.347***	2.845***
Risk					
Total debt to total asset	.19891	.19700	(0.00191)	-.110	.089
Long term debt to equity	.39091	.38355	(0.00736)	-.196	.306
Days of receivable	252.57	254.45	1.88	Not valid	1.33
Days of inventory	277	276	(1)	-.079	.311
Employees social responsibility					
Total employment	4518	4088	(430)	-2.652**	1.956**
Bonus payment per employee	90.9	129.18	38.28	11.281***	2.938***
Training cost per employee	4.47	21.08	16.61	4.622***	2.934***

***refer to significant relationship at 95% confidence interval of the difference level**

*****, **,* significance at 1, 5 and 10% respectively**

Table 7.4: significance of changes in the performance of company (B)

Given that the real sales increased significantly at p-value less than 1% after privatisation, the large scale job cuts within the company resulting from privatisation may have translated into a temporary ratio boost, in that the company consistently generated rising sales with a shrinking work force, thus boosting the efficiency ratio more rapidly. That is to say that this significant increase was primarily due to reducing the level of employment within the company, rather than that the company genuinely cut costs and was operating more efficiently. While there was no significant improvement in its risk proxies, company B increased it's bonus payment and training per employee significantly at a p-value 1%, while the total employment in the company decreased significantly at p-value less than 5%.

In summary, it can be seen that there have been only minor change in MCS techniques and firm performance since the privatisation. A patrimonial management style is still to be found, and promotion on the basis of seniority has lingered as the common system within the company. The main noticeable difference is that there are now fewer employees operating within the construction process, which we have seen was caused principally by the early retirement programs adopted by the company.

7.4 Company (C)

The analysis presented for unit case (C) following the same standard format of the former cases.

7.4.1Brief historical view

Company(C) is the product of GOE policies of urban infrastructural expansion, when the company was established by the GEOHU in 1961 in order to construct urban water networks, ductile metal pipes for sewerage and low segment housing projects in the Helwan and Banha cities (EFCBC, 2006).

During the public ownership period, as an affiliate of the GEOHU, the company worked in a highly regulated market, with all the key business decisions taken by the company having to be ratified by the GOE. Like the other SOEs discussed in this chapter, Company (C) worked to a quota as set by the national plan. The company was equipped with relatively modern construction technologies, engaged a labour force of over 5000, and owned three separate constructing plants around the country (EFCBC, 2006; AmCham, 2003).

The retired Accounting Manager affirmed that managerial decision-making passed thorough a complicated network of bureaucratic controls and checkpoints. Capital investment was funded by the GOE through public sector banking institutions on a "soft loans" basis, which allowed the company to overload on labour. The main contractors of the company were mostly other public sector entities, and prices for its product were predetermined by the GOE. The company was also forced to acquire its main raw materials (cement and steel) from other public sector companies.

In 1991, due to the SAP agreements, the company began to experience some financial difficulties, as the GOE was not able to continue its relaxed credit policies towards the company. As the GOE fiscal crisis mounted, public investment into SOEs decreased, which inevitably had a knock-on effect on the company output. The company was effectively no longer subsidised by the GOE, and its management was given greater autonomy and supported in its efforts to pursue profitability as a key operational principle. The HCBC further encouraged the company to seek export markets for its products. However, the company's management was incapable of improving its weak financial position without assistance, even with the more globalised outlook towards the construction business. The HCBC brought in several public sector banks and members of the insurance industry to assist the company in restructuring its huge accumulated debt, which reached nearly L.E40 millions in 1996 (EFCBC, 2001; EFCBC,2006; AmCham, 2003).

7.4.2 The effect of privatisation

The discussion in this section follows the same pattern as the former cases.

Change of ownership and control

In September 1996, the company was privatised via the IPO selling process. Following privatisation, the ownership structure of the company was as follows: 29% to the HCBC, 10% to ESA, 10% issued shares on the Cairo Stock Exchange, and 51% to the public in the form of free floating equity. Public sector financial institutions took on a substantial proportion of the equity in the 51% free float, giving the GOE a stake in Company (C) of over 51%. Despite this, the company was considered majority privatised in accordance with official statistics. However, on closer inspection, the ownership structure of the company actually appeared as follows: 29% to the Holding Company, 10% to Ahly Bank, 10% to Misr Bank, 10% to Misr Insurance company, 10% to the ESA, 10% in the stock market and 21% free floating equity, in which it was also possible for the GOE to have additional stakes through public sector financial institutions (Annual Report Company (C), 1997; EFCBC, 2001).

The 11 members of the BOD of the company comprised 3 members from HCBC, 1 from the ESA, 2 from a public sector bank, 1 from a public insurance company, 2 external experts from the construction industry selected to the Board by the General

Assembly (who were approved to represent shareholders on the BOD but could not themselves be shareholders in the company) and 2 external investors. Even though the company was officially majority privatised, the GOE preserved a significant equity in the company, which actually reduced the private sector's equity ownership to well below the official 51% (Annual Report Company (C), 1997; EFCBC, 2001). This was not entirely surprising given the strategic nature of the company production of public buildings, waste water disposal, low-segment housing, potable water and urban water networks to the GOE. To some extent, it was perhaps more surprising that the GOE consented to the majority privatisation of the company in the first place.

The Chairman of the BOD was still a Board member of the HCBC, and appeared to equally represent the interests of both the Holding Company and its former Law 203 affiliates. This naturally created a contradiction between independence from the GOE and the continuation of government control, and these opposing factors were clearly in evidence within the company even after its privatisation. However, the company appeared to be somewhat more autonomous from the GOE after privatisation, as it was no longer necessary for the company to present their construction decisions and businesses activities to the HCBC for approval. Having said that, the HCBC still had three representatives on the BOD of the company including the Chairman, and continued to exert considerable power during the decision- making process.

General post-privatisation profile

As observed by the researcher, there were only slight changes made to the structure of management of the company and in its management personnel following the privatisation. Previously, there were ten General Managers in the company, and there remained five following privatisation. There was no extensive early retirement program implemented at the company, and the workforce has only been reduced from 5500 at the beginning of privatisation to around 5000 at the time of the study (Annual reports Company (C) various issues, 1996-2008). In comparison with Companies (A) and (B), there was no creation of new departments such as Maintenance, Product Design and QC, and Promotion. The company's prevailing construction operational activities remained the same; potable water, waste water disposal, factories, land reclamation, public buildings, roads, bridges, and low-segment housing. The only real difference in relation to the construction product lines was the introduction of electric power projects.

There is no evidence of a new injection of capital investment from the shareholders of the company following privatisation. However, this is not to say that there has been no new capital investment in the company at all. It is observed that old constructing machinery was replaced or renovated and became more automated for quality and waste reduction purposes. Some business and operational development adjustments have also been taking place at the company since its privatisation, for instance the establishment of a dedicated Marketing department, the technological upgrading of mechanisms for executing projects, and the development of some limited market research activities (Annual reports Company (C) various issues, 1996-2008).

Most of the management titles reflecting the historical public sector regime were retained on privatisation. One will still find within Company (C) individuals with titles such as General Manager for Production, General Manager for Sales and Contracting and General Manager for Engineering and Chemicals. These managers had no fewer than 6 employees working under their management, while their salaries were as low as 350 LE per month. The lack of correspondence between wages and employment title remained as it had been under the public ownership structure, which had resulted in the defection of some of the more experienced and technically qualified staff to the private sector. Furthermore, the physical appearance of the company remained similar to how it had been before privatisation. However, the work regime was tightened up, and adherence to working hours as said by the Chairman of the company to be more seriously monitored and implemented than before privatisation. In that interview, the Chairman expressed his appreciation for the employees' high levels of morale and commitment, despite their dissatisfaction with their remuneration.

7.4.3 Changes in MCS practices relative to the influence of internal and external factors in company (C):

This section replicates those for Companies (A) and (B).

Planning and budgeting

Before privatisation, the key item within the budgeting process was building materials, with forecasts founded on the previous year's consumption. In relation to other matters concerning the company administration, specific requests were then made for the purchase of new machinery, office equipment and furniture, and any upgrading required of the construction mechanisation. On this subject, the Financial Manager said: '*Most of these requests were rejected, excepting those relating to building materials and hiring new employees.*' Following approval of the budget, the company then contacted its public suppliers, or alternatively opened a Letter of Credit (L/C) Account at National Bank if it would be importing raw materials. It then notified the HCBC. The company's budgeting process during the public ownership period served primarily as a means by which to control the spending level of the company.

Since privatisation, budgeting procedures have not been formally observed. Both of the Financial Manager and Production Manager argued that the company did not need strict procedures for MCS practices, favouring a scheme of informal personal supervision as opposed to more formalised budgeting controls. In addition, the adaptation and introduction of formal MCS practices is costly, providing an additional reason to retain the pre-privatisation systems.

There were other reported reasons raised by the Financial Manager, and the HR Manager which hindering the company adopting formal budgeting. For example, the HR Manager pointed to the shortage of accounting personnel, well-trained skilled and semi-skilled workers, and a lack of engineers and consultant engineers specialising in critical areas. While the Financial Manager charged the temporary project-based nature of the construction activities meant an increased level of uncertainty in the budgeting and planning process. There was insufficient knowledge of the actual cost of building materials and the lead-in time between the successful tenders and the execution of the works. Moreover, accumulated government debts, an increase in the price of land and an unforeseen increase in the prices of intermediate input and building materials all made planning and budgeting unpredictable.

As a result of the above, budgeting and planning has generally been ad-hoc and short-term oriented since privatisation. One example of this ad-hoc approach was the preparation of short-term activities in connection with an offer for execution of a particular project. Before the purchase of any building materials could be considered, the construction work plan had to be approved. Consequently, the planning process was based on demand-driven or project-determined activity. As explained by Chief Accountant: '*From the building material combinations identified for each specific project, the company then determined the quantities and types of materials thus* *required, and verified the inventory balance*'. In the case of any shortfall, additional building materials were purchased from the local market or abroad, depending on the type of the project.

A perpetual inventory system was utilised for the management of inventory. The Inventory Manager designated that the company planned to have a sufficient level of stock at any given time, in order to minimise any possible delay in executing projects due to a lack of materials. Moreover, each occasion of the importation of raw materials involved implicit costs and was associated with long and complicated bureaucratic procedures. For this reason, as said by the Inventory Manager: '*the company purchased building materials in large quantities, even if the volume of work required was limited*'. For electric power and portable water projects, a substantial inventory was required, which sometimes led to liquidity problems. However, the practice of purchasing building materials in large quantities did not apply to stock that was available locally, as this could usually be ordered and supplied at any time.

In summary, the company continued to use the same inventory methods, recording systems and documents as they had used during the public ownership period. The only real difference was that the procedure for the receipt and issue of raw materials was not hindered by such strict timetables, and that the company was not forced to deal with public suppliers only, as they had been during the public ownership phase.

Product Costing and Pricing

During the public ownership period, a separate division of the Accounting Department controlled the product costing process, and were responsible for ensuring that a match was made with the predetermined prices settled by the HCBC, as denoted by the retired Accounting Manager. After privatisation, the costing system utilised was essentially a continuance of the previous system, although the amount of paper work required was reduced. The Financial Manager maintained that the company utilised uniform costing for its housing products, as there were standard amounts of intermediate input and building materials required for their low-segment housing products, and costing could therefore be projected and easily transferred between projects. In contrast, for waste water disposal, portable water and electric power products, the company applied actual costing, since these projects were more complex and involved a significant number of workers receiving different salaries and possessing different levels of skills.

As Said by the Financial Manager *'the OH costs were no longer determined per department as they had been for the period of the public ownership '*. They were simply aggregated and distributed between products on the basis of physical output. After privatisation, OH costs included transportation cost, telephones bills, and other personal expenses. Inclusion of these expenses escalated the normal costs of construction and gave an artificially inflated view of product costs. During the public ownership period, these kinds of expenses had been negligible.

Prior to privatisation, product pricing was derived from a fixed profit margin on overall manufacturing costs, which was dictated by HCBC. In this way, the HCBC was able to direct the profits of the company. As signified by retired Accounting Manager: *'If gross profit margins were small, the company could submit a formal request to the HCBC to alter their products prices'*. After privatisation, the company was able to set its products prices without any interference from the HCBC. The firm formulated its prices based on the total manufacturing costs, interest, estimation of the expenses and profit mark-up on the project, and income taxes. The prices were then adjusted as necessary to take into account competitors' prices and/or any fluctuation in the price of land and building materials with respect to the local currency.

As was the case with companies (A) and (B), the Financial Manager further indicted the sudden flotation of Egyptian currency without compensation, the unexpected increase in the prices of building materials and land, the complicated process of issuing construction permits and a general shortage of financial resources were again common external factors affecting the firm's costing and pricing activities during the post-privatisation period. In addition, the Marketing Manager proclaimed that the export of construction services decreased significantly, whether in absolute or relative terms. Contextual factors are still responsible for the limited construction exports, particularly the GOE regulations and policies adopted by some foreign countries. Both the GOE and the banks impose high costs on exporters, which consequentially affects the competitiveness of the company. Egyptian banks and insurance companies require high foreign currency coverage from exporters for issuing letters of guarantee, and impose high charges for issuing these letters (between 3-4%), as well as high insurance fees. This is particularly the case with exports to countries with perceived high political risks. As highlighted by the Marketing Manager: *'other foreign exporters, such as French* *companies, have always enjoyed insurance coverage, which makes them more cost competitive than our firm in potential markets, the GOE does not grant us, or any other company in the industry, financial aid to support our export activities, whereas competitors in these markets are able obtain financial support from their governments*'.

In this matter, the Financial Manager also asserted that the GOE has also deferred compensations and payments to the company, thus affecting its liquidity position and its ability to expand its exports activities. The GOE has also imposed high customs duties on equipment and capital goods used in foreign markets, in addition to a sales tax on these goods. To exacerbate the situation, the Egyptian Export Credit Guarantee Company (EECGC), instituted by law 21/1992 resulting from the SAP agreement, does not grant insurance to exporters against political risks and non-commercial risks during the period of execution of the project. These risks include safety and security risks, road accidents, thefts and a lack of safe infrastructure in importing countries. There also exists the problem of dangerous transportation of workers and equipment to some African countries which do not have access to sea ports, unpaid obligations following civil wars, and risks associated with contract management, especially when the client is a foreign government.

Furthermore, the Marketing Manager added that the policies of some targeted foreign countries, especially Arab countries, represented additional export constraints. These constraints included restrictions on the permitted percentage of foreign partnership and foreign workers, transporting building equipments bought in the local market, and visa issuance. These policies also included high taxes on net profit in some countries (for instance 30% in Algeria), high insurance fees on temporary imports of equipment and machinery, and high levels of health insurance for employees. Finally, discrimination between local and foreign companies exists in some Gulf countries, making it more difficult to penetrate foreign markets.

However, it can also be opined by the researcher that the ability of the company to export and to compete internationally was further undermined by internal factors, such as limited expertise in areas such as marketing, design, operation and maintenance of projects, and may also by a lack of international standards of quality and performance.

Internal reporting and Decision-making

As with Companies (A) and (B), during its public ownership phase Company (C) also had to perform its internal reporting practices in line with an accounting manual prepared by the HCBC. The retired Accounting Manager averred that each month the company sent into the HCBC statistical sales and contracting reports, income statements, balance sheets and information concerning products and payroll costs. The HCBC also received Company (C)'s quarterly and annual financial statements, which were used to monitor the company's activities and performance.

Having worked under both public and private ownership and still in his position for more than 17 years, the Financial Manger indicated that he approved of the way in which internal reporting practices were performed prior to privatisation. He said that: '*routine tasks and formal procedures at all managerial levels were clearly defined. There were internal auditors whose role was to monitor the company's daily activities and correct any errors. The hierarchy and the individual departments were all well established and defined, and their activities were reported to the senior heads in a routine manner*'. Subsequent to privatisation, the Chairman and BOD obtained relevant financial information in the form of production reports, cash-flow statements, summaries of incoming contract bills, and import and export documents. Reports on weekly production levels were made and submitted along with information concerning deposits and copies of contracting vouchers. However, while these reports were certainly useful, the company no longer had internal auditors to verify the accuracy of accounting reports.

In fact, weekly production reports have always formed the basis of the company's internal management reporting, both in the private and public era. The Financial Manager added that the post-privatisation reports differ slightly in terms of their frequency and layout. In addition, separate detailed reports were introduced to monitor the daily production output of the workers, as their remuneration was calculated in accordance with their production levels. Accordingly, workers are now motivated to engage in additional activities to improve their productivity and hence their pay. The project and location heads submit the employees' weekly production reports to the Production Manager, who in turn presents them to the Chairman and BOD with a summary report. The Production Manager is directly informed about any delays or defects by the project head and QC staff members.

Before privatisation, the major decision-making body was a management committee comprising the General Manager and the heads of the Finance and Administration and the Production departments. Decisions made by this committee regarding measures, plans and routine activities were reported to the HCBC for approval. After privatisation, the Chairman and BOD dominated the strategic decision making process. As said by Chief Accountant: '*the general managers for the different departments within the company are deficient in expertise and skills, and they thus tend to demote most of the issues to the Chairman. Although the managers sometimes confer with the department heads, particularly in relation to tender offers, the role of the department heads is limited. The Chairman is always consulted in every thing from the needle to the rocket!*'

It could be observed by that researcher that the rigid arbitrary and hierarchical authority still found in the company has led to a culture of obeisance, and fear within the workforce. Any power conferred on employees is discretionary and seemingly arbitrary, meaning that first line employees are still unable to engage with superiors as relative equals, and are unwilling to pass on criticism or ask questions. In short, the decision-making process in the company remains hierarchical. Most decisions are made on the basis of an individual's seniority within the hierarchy, rather than on the basis of his/her technical and operational knowledge.

Cost Control and Waste Minimisation

The Project Manager affirmed that the Chairman and the BOD handle the imports of building materials and are therefore responsible for controlling the cost of inputs. For the construction of low-segment housing, the usage of building materials is controlled via predetermined standard input quantities. For other project products, there are no standard measures, but the utilisation of resources is optimised. The introduction of advanced computerised mechanisation has significantly minimised the number of faults encountered in executing projects. The consumption of raw materials is controlled at the time of issuing materials, through the company ensuring it does not exceed the pre-determined quantities required for the given project and unit.

Whereas the HR Manager indicated that the workers' productivity is observed by the unit heads and recorded in weekly production reports. Estimates are made of the optimal level of workers required for any projects that require a large workforce. In the case of large scale projects, the HR Department considers whether supplementary workers should be hired in order to reduce costs associated with overtime. Conversely, when the workload declines, the HR department may advise a reduction in the number of workers. In this situation, the company tries to reduce labour and OH costs in order to increase profitability.

There is no evidence of any new major waste minimisation strategies adopted by company since its privatisation. Some more focused approaches regarding the quality standards of the construction units and project quality standards have been reported by the Project Manager. As the EFCBC central safety standards committee regularly makes an analysis of the safety and quality of all constructed units and projects produced by the company. No significant defects or problems have been reported thus far.

Performance Measurement and Evaluation

As opined by the retired Accounting Manager, the HCBC evaluated the company's performance by comparing their real results with the budget figures before privatisation. In this way, the HCBC could check whether the company had performed its construction activities within the confines of their approved budget according to the national plan. The company used financial ratios in to assess its financial and operating performance. Internal reports on the consumption of resources and daily activities served as control mechanisms, and the distribution of building materials between the units and project locations was monitored through documents.

After privatisation, the company still uses some of its public era documents for evaluation and control purposes, as stated by the Financial Manager. The company recently reviews its performance on the basis of productivity, profitability, capacity utilisation, and quality control. Production reports and annual financial statements are the core sources of information on these subjects.

However, the HR Manager emphasised that evaluation and monitoring takes place at different levels: at an individual, departmental and general overall level. At the individual level, workers' construction activities are evaluated through the production of weekly reports. These reports provide an insight into productivity patterns and give information about the reasons behind any faults, for instance any technical problems or poor work standards. At departmental level, these reports are combined to show the actual output of a particular department, or to show that of the company as a whole.

These reports give an indication as to the company's ability to meet projects deadlines. In general, measures taken against unproductive and inefficient employees range from giving advice to punishment.

Before privatisation, the weekly production reports were kept in a separate register which the GM evaluated every three to four months. Any periodical increments and monthly payments were made on a standard basis, rather than in consideration of employees' individual productivity levels. Accordingly, there was no incentive for workers to enhance their performance. Following privatisation, this situation has changed. All information is now evaluated on a daily basis and recorded on separate cards. Any significant variation is systematically investigated and the reasons thus identified to be behind any problems are identified and addressed. As opined by the HR Manager; *the new performance appraisal system has positively influenced employees' behaviour. The personnel are now more motivated to attain progress and pick up their skills, as they know the same will be fairly rewarded.*'

However, the HR Manager added that the training and educational programmes which were supposed to be offered by the company to improve employees' productivity have been delayed due to the inefficient system of vocational education and training centres. Regarding this matter, it is worth mentioning that the numbers of trainees in Company (C), and in the previous studied cases, is insufficient, and remains insignificant as a proportion of total employment within the companies. In general, the current system of training centres falls short of meeting the needs of the studied firms in terms of both quantity and quality (CAPMASS, 2008a, 2008b).

7.4.4 Operating and financial performance of Company (C)

Table 7.5 summarises the descriptive statistics for the accounting performance indicators of unit case (C) in the pre- and post-privatisation period. The table presents the results of standardised skewness and the standardised measures, which were used in order to decide whether the performance ratios could be adequately modelled by a normal distribution.

As shown from table 7.5, the means, minimum, and the maximum values for the profitability and efficiency ratios clearly deteriorated in the post privatisation period. While the means, minimum and maximum values increased after privatisation in respect of the output proxy, the liquidity risk ratios increased noticeably after privatisation, as the days of receivables and days of inventory increased positively. There were slight negative changes to the debt to asset and long term debt to equity ratios. Whereas total employment slightly decreased, the other ratios in relation to bonus payment and training per employee showed a bigger positive change after privatisation. The means, minimum, and maximum values are clearly enlarged after privatisation.

Aside from the benefits per employee ratio, all other financial ratios values of the standardised skewness and standardised kurtosis are within the range of ±2, with the data set tending to be symmetric and to have a flat top near the mean, rather than a sharp peak. Therefore, both the t-test and Wilcoxon Z statistics test were valid for significant changes in means and medians for all the ratios, with the exception of bonuses per employee ratio, where only the Wilcoxon Z statistics was the suitable test.

As shown in Table 7.6, the shift to private ownership in Company C resulted in a significant decrease in its profitability ratios, with the ROA, ROE and ROS decreased significantly at p-value less than 1%.

Although the real sales increased significantly at p-value less than 1%, the operating efficiency ratios didn't show the same results. While there is a positive non significant increase in the sales efficiency ratio, the income efficiency ratio deteriorated significantly after privatisation at p-value less than 1%.

Even though there was some improvement in the credit risk, as the long term to equity ratio decreased significantly after privatisation and a non significant decrease occurred in the total debt to total asset ratio, the liquidity risk of the company increased obviously after privatisation, with both ratios of the days of receivable and days of inventory increasing significantly at p-value less than 1%. Whereas the total employment didn't show any significant change, the bonus and training per employee increased significantly after privatisation at p-value less than 1%.

Proxies	N	Means		Minimum		Maximum		Standard deviation		Standard Kurtosis		Standard Skewness	
		Pre	Post	Pre	Post	Pre	Post	Pre	Post	Pre	Post	Pre	post
Profitability													
Earnings before interest and tax to asset (ROA)	11[a]	.06482	.04136	.048	.031	.074	.052	.00848	.007852	.605	-1.459	-1.117	-.313
Earnings before interest and tax to equity (ROE)	11	.14255	.06809	.096	.045	.168	.086	.0244	.01647	-.063	-1.845	-.918	-.442
Earnings before interest and tax to sales (ROS)	11	.17300	.10891	.133	.079	.189	.130	..01786	.02103	1.764	-1.830	-1.655	-.493
Operating Efficiency													
Sales efficiency	11	11.845	12.923	10.893	10.680	13.31	14.81	.79880	1.5047	-.491	-1.641	.706	-.416
Income efficiency before interest and tax	11	2.056	1.385	1.501	1.110	2.478	1.698	.30553	.18538	0.16	-.809	-.525	.215
Output													
Real sales	11	56093	65253	50032	58402	62627	73626	3873.4	4600.2	-.102	-.504	-.036	.217
Risk													
Total debt to total asset	11	.19882	.19582	.180	.174	.217	.218	.01223	.014985	-.872	-1.511	.019	-.048
Long term debt to equity	11	.27745	.17064	.250	.148	.317	.224	.02662	.02407	-1.745	1.463	.550	1.439
Days of receivable	11	155.82	203.45	145	187	174	217	10.167	10.792	.119	-1.682	1.044	-.089
Days of inventory	11	262.8	346.6	245	314	313	393	24.665	27.576	1.777	-1.387	1.789	.291
Employees social responsibility													
Total employment	11	5544.7	5358.1	5350	4988	5709	5734	105.96	300.40	.187	-1.917	-.271	-.168
Bonus payment per employee	11	86.8	137.18	79	136	113	138	9.735	.874	5.673*	-1.621	2.188*	-.409
Training cost per employee	11	2.64	10.91	2	6	4	21	.674	4.763	-.293	.523	.593	1.182

***Out of range ±2, i.e., not valid for t test**

[a] the last 11 years of public ownership compared to the first 11 years of private ownership

Table 7.5: Descriptive statistics for the performance measures of Company (C)

Proxies	Mean value before privatisation	Mean value after privatisation	Mean change due to privatisation	t-statistics for difference in Mean	Wilcoxon Z statistics change in median
Profitability					
Earnings before interest and tax to asset (ROA)	.06482	.04136	(0.02346)	-11.314***	2.936***
Earnings before interest and tax to equity (ROE)	.14255	.06809	(0.07446)	-19.255***	2.937***
Earnings before interest and tax to sales (ROS)	.17300	.10891	(0.06409)	-15.692***	.2936***
Operating Efficiency					
Sales efficiency	11.845	12.923	1.078	1.587	1.600
Income efficiency before interest and tax	2.056	1.385	(0.671)	-7.418***	2.934***
Output					
Real sales	56093	65253	9160	3.988***	2.667***
Risk					
Total debt to total asset	.19882	.19582	(0.003)	-.720	.891
Long term debt to equity	.27745	.17064	(0.10681)	-18.683***	2.936***
Days of receivable	155.82	203.45	47.63	19.928***	2.937***
Days of inventory	262.8	346.6	83.8	6.164***	2.934***
Employees social responsibility					
Total employment	5544.7	5358.1	(186.6)	-1.559	1.245
Bonus payment per employee	86.8	137.18	50.38	Not valid	2.937***
Training cost per employee	2.64	10.91	8.27	6.464***	2.941***

*****, **,* significance at 1, 5 and 10% respectively**

Table 7.6: significance of changes in the performance of Company (C)

In summary, the performance of the company was affected by the element of government control which was still in evidence at the company even after privatisation. There were slight changes in the structure of MCS in the company, and its operating and financial performance was affected externally by contextual factors. The performance of the company was undermined internally by limited expertise in areas such as marketing, design, operation and maintenance of projects, and also by the lack of formal and effective MCS.

7.5 Summary and discussions

The purpose of this chapter was to present an analysis of three different Egyptian construction companies, focusing on a detailed description of the post-privatisation changes of MCS practices and firm performance in a standard format for each company.

Of the three, there was only one case in this study (Company A) where privatisation led to actual control of the company being passed to the private sector. This further led to significant improvement in MCS, firm performance, managerial, corporate culture and other changes effected by the private ownership. Beltone Investments Group succeeded in eliminating much of the senior and middle management, which had been connected with soft budget constraints practices under the public ownership, accordingly facilitating a substantial restructuring of internal organisational culture. The management went on to develop the company's business primarily via corporate mechanisms, such as through promotions and marketing, standardisation and quality, and aggressive sales and contracting strategies attached to an expansion of construction activities. General changes observed after privatisation included a rise in employment and an improvement in the employees' working mentality and technical skills. The firm became more keenly focussed on efficiency, cost consciousness and quality. In achieving these goals, the introduction of new machinery played a significant role, enabling the firm to manufacture better products and reduce the costs associated with the construction process. With respect to the firm's MCS practices, major improvements were achieved through effective use of formal planning, an innovative pricing policy, frequent reporting and a tighter monitoring process. These all resulted in a significant increase across the board in terms of financial and operating performance categories.

In the case Company (B), the new shareholders have implemented some changes in relation to business strategies, although some of these changes were already being developed before the privatisation process, when the company was governed by Law 203. There has generally been little change in management strategy since privatisation, with the majority of the company's higher and middle management still dominating the running of the company. There has not yet been any noticeable difference in the correlation between privatisation and MCS. The main obvious difference is that there are now fewer employees involved in the construction process, with the reduction primarily due to employees having left the company as a result of the early retirement programs adopted. While some change has occurred in the corporate structure of the company, and while some of the dominant shareholders have sought to implement further management and operational reforms, the essential public sector management structure, MCS, corporate culture, and firm performance have all remained fundamentally unchanged following privatisation.

The GOE has preserved a large equity share in company (C) following privatisation, which has effectively reduced the true proportion of private sector equity ownership when the 51% is more closely analysed. As a result, the company has continued to be run in accordance with a management control system more commonly associated with public sector institutions despite its privatisation. This has resulted in an associated significant decrease in Company (C)'s financial and operating performance. It can also be said that the performance of companies (B) and (C) was more negatively affected by contextual factors, in that their failure to be more proactive in the application of MCS resulted in them being less able to respond positively to these external influences. There are a number of external factors which affected all 3 companies as follows:

- the temporary project-based nature of construction activities and the instability of the work itself;
- a shortage of accounting personnel, well-trained skilled and semi-skilled workers;
- a shortage of engineers and consultant engineers specialised in critical areas;
- accumulated government debts;
- increases in the price of land;
- the unforeseen increase in intermediate input and building material prices;
- the sudden flotation of the Egyptian currency without adequate compensation strategies;
- various barriers to export;
- complex and non transparent regulations;
- an increase in the number of informal small competitor firms;
- the high cost of borrowing;
- a high degree of labour informality;
- a poor and inefficient system of public vocational education systems and a numerical lack of vocational training centres.

The above contextual factors all served to hinder the 3 companies from improving their MCS and firm performance to different extents. However, it should be noted that other internal factors, for example poor management and/or a shortage of managerial skills, a lack of marketing knowledge, and the absence of proper and advanced MCS, can also be pointed to in explaining the lack of effective post-privatisation performance for companies B and C in particular. Table 7.7 below provides a summary of the post privatisation changes and firm performance of all three cases.

Items	Company (A)	Company (B)	Company C)
MCS changes			
Planning and budgeting	-Formal long term and short term planning and budgeting tools updated regularly. -Regular sales forecasts. -Full knowledge of batch standard input-output relationship. -Frequent re-estimation of budget and feasibility studies to address fluctuations in building materials prices.	-No formal planning and budgeting system. -Sales forecasts used as a basis to estimate projected sales activities. -Standard batch unit is known -No re-estimation of budgets, no feasibility studies performed.	-Short term ad-hoc planning and formal budgeting procedures. -No sales forecasts performed. -Lack of knowledge about standard inpu out put, demand driven. -No feasibility studies performed.
Product costing and pricing	-Process costing methods used for every product line. -OH cost aggregated to each product line on the basis of output. -Costs negatively affected by increase in building materials prices.	-Actual cost used to estimate projected costs of direct labour and building materials. -A mix-up in the manufacturing costs and OH costs. -Costs affected by the floatation of the Egyptian pound, sales tax and custom duties, and the influence of informal small firm competitors.	-Standard costs applied to housi products and actual costing used f infrastructure projects. -OH costs figures include irreleva personal expenses. -Costs affected by the same factors with Company (B) in addition to expo regulations and policies applied in forei countries.
Internal reporting and Decision-making	-The company followed the Beltone Investment Group strategy of recording and reporting systems with detailed forms, reports and analysis. -Use of computers and software programmes made record-keeping more efficient, improved accuracy, facilitated analysis, enabled networks. -Decision-making more organic, flatter and decentralised.	-Continued use of the same HCBC pre-designed forms. -Introduction of some new forms, new analysis methods, and computerisation of the reporting system. -Slight change to the decision-making hierarchy -Reduction in the empowerment of first line employees.	-No significant change to the form reporting system aside from a slig change to lay-out and usage. -Weekly production reports emerg more strongly and were used to monit productivity. -Decision-making process in the compa still internally hierarchical.

Table 7.7: Summary of post privatisation changes in MCS and firm performance in the three cases.

Items	Company (A)	Company (B)	Company (C)
Cost control and waste minimisation	-Input-output standards to monitor consumption, the quality of each project carefully checked. -Usage of timber reduced. -Self regulated "green" approach by EMC and acquisition of ISO 9001:2000 in 2005.	-Input-output relation established and used to control building materials and reduction in labour cost by reducing number of employees. -Labour cost affected by a lack of trained and skilled workers in crucial areas. -Water consumption reduced by 20% -Wastage better controlled	-Pre-determined standard input quantiti and optimisation of resources. -Weekly production reports used control labour productivity. -No evidence of waste minimisati strategies.
Performance measurement and evaluation	-Weekly and monthly variance analyses and bi-annual performance reviews. - Introduction of PES.	-Trend analysis of weekly, monthly, and annual reports, SWAT analysis and market surveys. -Monthly shareholder meetings with the BOD.	-Internal reports, resource consumpti figures and financial ratios used performance measurements tools. -Individual, departmental and gene evaluation and monitoring.
Firm Performance			
profitability	-Significant increase in ROA, ROE, and ROS.	-No significant change in ROA, ROE, and ROS.	-Significant decrease in ROA, ROE, a ROS
Operating efficiency	-Significant increase in Sales and Income efficiency ratios.	-Significant increase in Sales and Income efficiency ratios	-Significant decrease in income efficien ratio and no change in Sales efficiency.
Output	-Significant increase in real sales.	-Significant increase in real sales	-Significant increase in real sales
Risk	-Significant decrease in total debt to total assets ratios, and long term debt to equity ratios. -Significant increase in days of receivable, no change in days of inventory.	-No significant change in total debt to total assets ratios, and long term debt to equity ratios. -No significant change in days of receivable or in days of inventory	-Significant decrease in long term debt equity ratios, and no change in total de to total assets ratio. -Significant increase in days of receivat and in days of inventory.
Employees' social responsibility	-Significant increase in total employment, bonus payment and training per employee.	-Significant decrease in total employment, -Significant increase in bonus payment and training per employee.	-No change in total employment -Significant increase in bonus payme and training per employee.

Table 7.7: Summary of post privatisation changes in MCS and firm performance in the three cases (continued).

CHAPTER 8
Reflective discussion and conclusions

8.1 Introduction

This study has investigated the changes in the MCS practices and firm performance of three privatised SOEs in a developing country. It was based on the following central research question: *'How do external and internal factors influence the relationships between privatisation, MCS change and firm performance in LDCs?'*. The research was conducted using the Egyptian construction industry as a basis for investigations. The main aim of the study was to gain an insight into the process of change instigated by the privatisation of Egyptian businesses. In order to answer the main research question, a set of four research sub-questions were settled. The first research sub-question was; *'Why and how did the GOE implement the privatisation policy?.'* A descriptive historical analysis was applied in order to explore this research sub-question in greater depth. The analysis focused mainly on the socio-economic, political and institutional transformations seen in Egypt pursuant to the application of SAP on May 17, 1991. The descriptive findings resulting from the historical analysis were presented in chapter six, and give an overview as to why and how Egypt implemented its privatisation policy. Chapter six focused on a review of the most important historical, political and economic events in Egypt prior to privatisation, discussed the implementation of the SAP polices and privatisation process, analysed some of the economic indicators in relation to the programme and analysed the process of social subsidy reduction following the implementation of the SAP. In Chapter six, there was also a description of the processes which were used in terms of the implementation of the programme, the consequent reduction of the public sector, and the means by which the programme itself was regulated.

In chapter seven, a mixed method case study approach was undertaken in order to answer the remaining research sub-questions. These research sub-questions were as follows:-

- *Which MCS practices were used before privatisation and how did these change after privatisation?*
- *What is the impact of privatisation on firm performance in terms of profitability, operating efficiency, output, risk and employees social responsibility, when compared to performance during the public ownership period?*

- *What are the external and internal contextual factors which affect [changes in] post privatisation MCS practices and firm performance?.*

The aim of chapter seven was to investigate the changes in MCS practices and firm performance resulting from privatisation, and to discover how the identified firms carried out their activities, and how their performance levels differed. In addition, chapter seven examined how the transition process has been influenced by various external and internal factors, while taking other socio-economic factors into account.

The structure of this chapter is as follows; the next section provides a summary of the theoretical expectations that were presented in the first four chapters of this study, followed by a cross-case analysis of the post-privatisation changes by focussing on the differences and similarities between the cases-specific findings relating to the three companies. Throughout this analysis, the development of contextual factors is indentified and discussed, as it can be seen that they played a major role in hindering the studied companies from improving their MCS and firm performance. Then, the conceptual framework of the study is modified so that it could be suitably adapted to similar situations in other LDCs. The last two sections of this chapter present the recommendations and limitations of the study.

8.2 Theoretical arguments and expectations

The first four chapters of this thesis considered the necessity of privatisation for LDCs, setting out two different theoretical arguments.

The first argument is that privatisation is the best solution to address numerous problems faced by companies under public ownership. To investigate these issues further, firstly, SOEs are protected by government subsidies and face no real competition and market pressure, which makes them inefficient (Lieberman, 1993). Secondly, SOEs are not focussed on profitability, aiming instead to bring about social welfare functions and to reduce unemployment (Young, 1995; Chin, 2008). Thirdly, there is a strong political interference in the selection of the managers of SOEs (Kumar, 2004). Political interference in the SOEs business operation is high, resulting in poor product choices, a lack of investment measures, overstaffing, and poor incentives for managers (Shleifer and Vishney, 1994; Estache and Fay, 2007). Because of the long chain of principal-agent relationships, the monitoring process in SOEs is weak. The principal has less knowledge of the enterprise than the agents, which results in information asymmetry, making it difficult to monitor the agents' performance. As a result of the bureaucratic structure of the decision-making process, SOEs are not capable of responding to market developments in a timely manner (Vickers and Yarrow, 1988; Masulis, Wang, Xie, 2009). As a result of these factors, the performance of SOEs is often poor.

Privatisation was expected to improve the SOEs performance in LDCs in various ways. It would provide the owners with a right to generate higher returns for assets, and to initiate a better incentive programme (Hart, 1990; Hart and Moore, 1990). Private ownership was hoped to stimulate productivity and encourage innovation in SOEs in LDC (Erbetta and Fraquelli, 2002). On a macro level, public finance problems were expected to be resolved by means of the market mechanism and the stimulation of development goals (Cook and Kirkpatrick, 1988; Rees, 1985) as a private enterprise operates in a capital market governed by the wealth maximisation principle, and social non-profit behaviour is limited (Ott and Hartley, 1991). Therefore, the transfer of property rights into the private sector and the ensuing competition were hoped to improve the MCS and firm performance (Macias, 2002; Vickers and Yarrow, 1988).

It was theorised that the post privatisation MCS practices and firm performance would be beneficial to the LDCs in the following ways. Firstly, the newly established MCS practices would be more profit-oriented and less bureaucratic, thus contributing to an improvement in the financial performance of the firms (Young, 2006; Uddin, 1997). Secondly, MCS would be closely associated with more efficient allocation of resources and economic rewards, combined with new initiatives such as improved employee social responsibility and increased quality management. Thirdly, MCS would focus on market information and would be more increasingly linked to developments in information technology. Fourthly, political interference would be minimised during post-privatisation, and management strategies would be focused on incentives by means of market-driven budgets. Private ownership would require the participation of both employees and managers, and by this means a more reliable control process could be achieved (Uddin and Hopper, 2003).

The other side of the theoretical argument discussed in this study claims that the improvement in MCS and firm performance levels is related to external and internal contextual factors. External contextual factors include country and market conditions (DeCastro and Uhlenbruck, 1997; Irwin, 2007), government and industry regulations, the influence of aid agencies, industrial relations (TU), and competition (Hoque and Hopper, 1997; Kennedy and Hobohm, 1999). Internal contextual factors include the organisation's ability to learn, to introduce new technology, and to bring about changes in strategy.

The literature suggests that all privatisation theoretical expectations for better MCS and firm performance depended on some common conditions. These conditions are identified as; the presence of efficient capital markets, non-interference of the state in the firm's management, unlimited access to capital, healthy macroeconomic conditions, and transparent structure of the firm's management and control practices. Unfortunately, these conditions are often not found to prevail in LDCs, which in turn may undermine the success and development of privatisation.

After presentation of the two sides of these theoretical arguments, this research has observed that there appears to be a significant gap in the literature in that it does not adequately clarify how expected post-privatisation changes occur from a LDCs perspective. Past contingency-based studies have tried to explain the way in which some factors shape MCS practices and firm performance, but they neither related these factors to privatisation, nor placed them in the context of LDCs. There are some studies which present a number of external factors drawn from the institutional theory (e.g. Hopper *et al.*, 2004a), and indeed link the success of privatisation with the influence of country and market conditions. However, these studies do not provide a detailed description of the way in which the influence of contextual factors affects privatisation outcomes.

In this study, the researcher has made an attempt to investigate post-privatisation outcomes across a wider spectrum, through the use of a developed and specific conceptual framework. Based on this study, one can argue that post-privatisation changes in the MCS practices and firm performance are closely related to contextual factors (see figure 4.3).

Taking all of the above into account, this study aimed to investigate post-privatisation changes in MCS practices and firm performance while also considering the effect of the contextual factors.

8.3 Cross- cases analysis

This section presents a cross-case analysis of the post-privatisation changes, focussing on the similarities and differences between the key case-specific findings. This section discusses the three cases under public ownership, the impact of privatisation in terms of change in ownership and changes in business strategies and operations, and consequent changes in MCS and firm performance.

8.3.1 The three cases under public ownership

During the public ownership era, the three Egyptian construction companies studied (A, B and C), as well as numerous other construction companies in Egypt, were supervised by public corporations and the Holding Company for Building and Construction (HCBC). Rather than being institutionalised in the organisational structure of state apparatus, centralisation and authoritarianism were enforced by the organisational culture of public administration. All strategies and planning decisions of the firms were centralised, which meant that there was significant governmental interference which diluted the firms' autonomy. Inherent information asymmetry and a long chain of bureaucracy affected the decision-making processes in an adverse fashion. Companies were limited in terms of their production output to pre-determined quotas and had to adopt fixed constructions scales. The role of the managers was constrained to the implementation of the national plans formulated by the General Egyptian Organisation for Housing and Urbanisation (GEOHU). These managers were appointed by GEOHU, and generally lacked appropriate authority and relevant skills. The markets were highly protected, and hence there was no real competition. Planning and budgeting activities were just a formality by which firms were required to prepare financial statements each year and statistical reports each quarter, but no feedback was ever given on these reports and they were not used in a constructive manner.

The promotion system was based on seniority rather than performance, with supplementary payments controlled by senior management and low basic monthly salaries. In this largely bureaucratic environment, employees were encouraged simply to satisfy their superiors. Having attained their positions off the back of long years of service rather than on merit, senior officials derived a sense of prestige and power which stemmed from their bureaucratic seniority. This gave them the direct power to reward or punish low-level staff. Senior officials were dedicated to preserving their own authority, and thus refused to delegate any responsibilities to low-level staff. Given the lack of significant financial compensation for achieving higher position after long years of public service, authority over low-level employees probably served as a self-actualising psychological return for the Egyptian public civil servant. This helps to explain the high degree of resistance to any delegation of authority after privatisation, especially in companies (B) and (C).

During the public ownership period, the three studied cases showed a pattern of significant power distance. Where wider society allowed an unequal distribution of economic and political power, so one could see an unequal distribution of power and authority in SOEs. Moreover, the end products of the companies were of a low quality, partly as a result of the fact that the GEOHU did not allow them to investment in new equipment and construction machinery. The poor condition of the firms' construction machinery also undermined their productivity, efficiency, competitiveness and waste management. On top of that, their workforces were unnecessarily large. Looking at financial make-up, companies were heavily indebted through access to soft bank overdraft facilities.

Overall, it can be seen that the three studied companies had no profitability drive. These findings are consistent with theoretical expectations (e.g. Sheshinski and Lopez-Calva, 2003, Vickers and Yarrow, 1988a; Ott and Hartley, 1991).

8.3.2 The effect of privatisation

Despite the fact that the selling of 51% equity in an SOE to the self-regulating private sector investors is in most cases referred to as "privatisation", and results in the transfer of SOE ownership to the private sector as defined by Adam et al. (1992), this study clearly shows that in Egypt, "privatisation" has not always resulted in the transfer of control to a whole new private ownership model. In the case of companies (B) and (C), even though 51% or more equity was sold by the GEOHU, the HCBC still remained the largest single shareholder in the both companies despite the privatisation process.

As a result, a 51% majority privatised company should not automatically be considered as a truly private enterprise. This only occurs when a transfer of control and ownership has been made from the GEO to new majority stake private shareholders, as opposed to the HCBC (or derivatives thereof). This study has found that "true privatisation" only actually occurred in one case of the three case studies. For this company, Company (A), privatisation brought about a radical change in terms of MCS and firm performance. Company (A) was privatised to strategic investors in transactions which left the GEOHU with no remaining equity in the firm. For Companies (B) and (C), either the HCBC retained a majority voice alongside the new private sector shareholders in terms of the managerial and corporate decision-making process, or the company remained under the control of the HCBC even after privatisation.

After privatisation, the three studied firms all accomplished some common goals. Firstly, privatisation resulted in the expansion of markets and the introduction of new products in all three cases. The studied companies all expanded their market business primarily through corporate mechanisms such as standardisation and quality, and aggressive sales and contracting strategies attached to an expansion of construction activities. The management of the companies generally had a greater freedom to make and implement their own decisions. There were also, to some extent, fewer boundaries on how much land had to be set aside for low-segment housing projects and raw materials procedures, given that most of the companies' projects were focussed on the high-segment housing market. However, the studied companies still engaged in low-segment housing development and infrastructure projects even after privatisation, because there remained a market for this type of construction business.

Secondly, the firms started to adopt clearer strategies with regard to product types and product pricing. These new strategies to some extent put a greater emphasis on quality, customer satisfaction and higher output levels. Work regimes were tightened, and working hours were said to be more seriously implemented than before privatisation. The companies were much more profit-seeking than they had been during the public ownership period, and there were fewer limitations placed on their capabilities to be profitable.

However, there were also differences between the case firms in terms of the implementation of their investment and business plans.

Company (A) improved its workforce in terms of both quality and quantity, via the provision of training to existing employees and by hiring more suitably qualified employees. This was made possible through the assistance of the Beltone Investment group and the setting up of three additional branches in different cities, which had a larger scale impact. In addition, the company's policies and structure were adapted to be more in line with Western standards. Employees' bonus payment and salaries in Company (A) were both noticeably higher post-privatisation than those at the other two case firms, resulting in a highly satisfied and motivated workforce. The company also eliminated the previous public hierarchical organisation structure, whereby employees were rewarded or promoted due to their seniority in the hierarchy, rather than on the basis of their performance. The Beltone Investments Group replaced the company's existing internal organisational culture with a system of modern multinational management practices by establishing a Performance Evaluation System (PES). Rather than release the superfluous workers, the Beltone Investments Group simply relocated workers within the company. In short, the hierarchical promotions system was changed to a meritocracy based system, with a work environment characterised by stricter working hours and higher salaries for employees.

On the other hand, both Companies (B) and (C) witnessed only slight changes in management strategies or personnel following privatisation when compared to Company (A). Most of the companies' previous higher and middle management were still in office after privatisation. The relationship between construction techniques and management did not demonstrate any noticeable change after privatisation. While Company (B) decreased its labour force by means of the early retirement programmes adopted by the company, Company (C) did not implement such an extensive early retirement programme due to its limited resources, and the workforce was only minimally reduced. Most of the historical public sector titles give to management positions survived privatisation in both Company (B) and Company (C). Many of the middle managers retained their public sector management titles, indicating a continuance of the pre-privatisation culture of hierarchical management. The discrepancy between compensations packages and management titles did not change noticeably after privatisation. The lack of correspondence between wages and employment title remained as it had been during the public ownership period, which resulted in some of the more experienced and technically qualified staff from both companies leaving.

8.3.3 Changes in MCS

In this sub-section, MCS and firm performance across the three cases studies is investigated. This exploration includes the five major MCS techniques used by the study; planning and budgeting, product costing and pricing, internal reporting and decision-making, cost control and waste minimisation, and performance measurement and evaluation (see table 7.7).

Planning and budgeting

After privatisation, all three companies changed their planning and budgeting practices to some extent.

Company (C) eradicated its formal budgeting and planning procedures and initiated a programme of short-term plans based on project-determined activity orders. This was due to a management which did not support long-term measures, mainly because the managers lacked adequate knowledge of matters relating to market demand. This uncertainty in relation to market movements was partly explained by the temporary project-based nature of the construction activities. There was also a shortage of skilled accounting staff.

Company (B) did not prepare formal budgets either, but rather focussed on annual sales plans based on past activity trends. These plans served neither as adequate criteria for the achievement of goals, nor were they used for control purposes. The company's production was targeted on estimates for sales and contracting activities, land development and infrastructure projects, the requirement of raw materials and work force. Some strategies were put in place to try and enhance the firm's profitability.

The reasons behind Company (B) not implementing long term budgeting practices were similar to those cited by Company (C). In addition, Company (B) was challenged by an accumulated GOE debt owed to the company, unexpected and unjustified increases in intermediate input and building material prices, red tape and corruption, and the complex and multifaceted process of gaining construction permits. Both firms' planning and budgeting abilities were hindered because of a lack of managerial experience, ability and knowledge. These limitations, together with cost and uncertainty issues, prevented the introduction of considerable changes in MCS practices.

These results are similar to the findings of Libby and Waterhouse in 1996, Hopper *et al.*, 1986; Burchell *et al.*, 1980 and Hoque and Hopper, 1997. Their conclusions indicate that contextual factors do affect budget and planning related matters in LDCs. The restricted use of formal MCS tools at both Company (B) and Company (C) is in line with the theoretical argument that firms in LDCs are not particularly focussed on formal MCS techniques and procedures (Chiu, 1973; Savage, 1966: cited in El-Ebaishi et al., 2003). The shortage of managerial skills and experience corresponds to the findings of other similar case studies conducted in Bangladesh and Sri Lanka by Hopper et al. (2004a).

In general, it can be concluded that Companies (B) and (C) adopted a short-term planning and control approach, based on short-term market demands and aimed at daily activities, which were directly monitored by the managers.

On the other hand, Company (A) conducted both short and long-term planning and budgeting activities. Market demand was anticipated on a regular basis, and the Production Department was provided with comprehensive product line information for planning purposes. Past sales trends were effectively analysed and the results used in projecting future projects. In general, budgeting procedures were based on a strategic plan formulated by the company. The lower departmental levels also participated in the budgeting process. As a result, the firm's budgeting policies became more realistic and effective, giving a clear direction to the departmental activities. MCS was clearly more formal and structured, and could be classified as a combination of a belief and a diagnostic system. This outcome is similar to the findings of studies conducted in Indian firms by Anderson and Lanen (1999), who identified similar results. The improvements in company (A)'s MCS were in fact initiated by the involvement of the Beltone Investment Group. As indicated by Al-Namri (1993), the MCS techniques adopted within a multinational strategic alliance are generally more comprehensive and sophisticated than those used in national management firms.

Product costing and pricing

All three companies possessed knowledge of input-output relationships and used standard costing methods. These results are consistent with the finding of El-Ebaishi et al.'s study, (2003) of Saudi firms, which showed that the majority of companies in LDCs apply standard costing methods. Although the three studied firms did not use advanced costing methods, for instance activity-based costing, Company (A) differentiated the costs of each construction activity for control purposes. While Company (B)'s product costing was affected by the integration of the office building depreciation costs into the manufacturing costs, Company (C) included the personal expenses in the overhead cost, which made the figures of product costing unreliable in both companies.

The three firms varied in the procedures adopted in setting their product prices. Company (A) adopted fixed product prices. This fixed product price mainly depended on the type and the designated segment of the units and projects, with the majority of its product mix targeted towards luxury and premium units. Company (C) gained more freedom in setting its prices, and formulated its product pricing method based on the total manufacturing costs, estimation of expenses and interest as well as income taxes, and profit mark-up. The resulting prices were then adjusted to take into account competitors' prices or any fluctuations in land and building materials prices with respect to the local currency. Company (B) was a price-taker, especially in the low and middle segment housing sectors, since its competitors offered their products at lower prices. The pricing policies for both companies (B) and (C) were hindered by the increase in the number of informal small firms producing low-quality and low-price products. This resulted in pricing strategies which were based primarily on low prices and cost advantages which could be offered to buyers. Both companies tried to keep prices low in order to win tenders, but these low prices exposed them to additional risk, if/when building material prices increased unexpectedly during the period of executing the work.

In relation to all three companies, it can be observed that pricing and costing strategies were affected by the floatation of the Egyptian pound and its subsequent depreciation against the US dollar in 2003. Other relevant factors included and increase in building material prices, the burden of sales tax and customs duties, and the GOE export regulations and policies adopted by some foreign countries.

Internal reporting and decision-making

The following similarities between the three cases were detected. All three companies maintained most of the reporting systems developed during the public ownership period, making some improvements and/or additions if necessary. During the private ownership period, reports and analyses became more detailed and sophisticated, and were applied for monitoring purposes, which had not been the case before privatisation.

With respect to decision-making and internal reporting, privatisation brought about some improvements. For instance, the companies began to use non-financial information as a tool for improving their product design and quality as well as to gain more competitive advantages. These results were consistent with the finding of Weygandt *et al.*, (2002) and Anderson and Lanen (1999). In addition, the shareholders shared in the decision-making power. The stock market also played a role in obliging the companies to disclose all material issues regarding their business operation. Therefore, stock market regulations to some extent stimulated the reporting processes in all three studied companies.

However, some differences across the companies were also detected. Firstly, Company (C) partly abolished the former public reporting procedures, and substituted it with personal supervision through the managers. This was because of a reduction in accounting employees, and a lack of interest on the part of the BOD in receiving comprehensive formal reports. Only short-term reports regarding weekly production activities were used.

Secondly, Companies (A) and (B) were clearly more reliant on daily reports than Company (C). This was because the Chairmen of Companies (A) and (B) were not physically present at the firms, and these reports were therefore used to provided the Chairmen with daily activity information. In general, computerisation and automation improved the frequency and standard of the reporting procedures to some extent in both companies. It encouraged the effective use of detailed accounting and financial reports. Therefore, the accounting staffs of both companies were relatively skilful and larger in comparison to that of Company (C).

Thirdly, the study findings indicate that Company (A)'s organisational structure tended to became more organic, flatter and decentralised than with the other two cases. This improved the communication process and effective coordination between departments, branches, individuals and units, and resulted in a better decision-making process all round.

Cost control and waste minimisation

The following similarities among the firms can be observed. At the very least, all three committed themselves to developing the quality of their products. The quality checking process started from the purchase of raw materials and was then sustained until the finished units were submitted. The Chairmen and BOD were closely involved in this process. The standard input/output relations were used in order to control the consumption of building materials and resources. All steps of the construction process were thoroughly observed, and direct actions were taken in the case of any anomalies. In summary, it can be concluded that privatisation improved the firms' quality standards, cost-consciousness, and strengthened competitiveness. These results are in line with the finding of Adam *et al.*'s (2001) study, which found that privatisation in Mexico and the USA led to an increase in quality in terms of eradicating internal failures and defective items and improving quality cost.

On the other hand, some differences between the firms were noticed. Firstly, Company (A) reduced the amount of timber, concrete and waste sent for land disposal by establishing an EMC, as well as conducting regular checks. Furthermore, it was able to better control costs by computing them separately, i.e., for each project activity. The company also acquired the ISO 9001: 2000 standard in 2005 which helped the company facilitate continuing improvements. Secondly, Company (B) minimised the consumption of water by 20% during building and construction activities. However, cost control activities in Company (C) were hindered by a lack of trained labour in certain areas of construction specialism. Thirdly, there was no evidence of any new major waste minimisation strategies in Company (C) following privatisation. Fourthly, the strategic alliance in Company (A) with the Beltone Investment Group paved the way for the implementation of improvements in the operating procedures and the introduction of an advanced quality system. This is an example of the benefit that a strategic alliance can bring in terms of MCS improvements, as indicated by Firth, (1996). This evidence also supports former research findings gathered in Syria (Abdeen, 1980) and China (Chan and Lee, 1997), which show that some Western accounting concepts are indeed beneficial to and applicable in LDC companies. In addition, these results are aligned with the views of Bruns and Kaplan (1987), who state that the participation and support of top-management is vital for the realisation of MSC change in business organisations.

Performance measurement and evaluation

In relation to the three companies studies, some common similarities were identified. After privatisation, all three companies to some extent introduced some similar systems in relation to their performance measurement and evaluation activities. Either directly or indirectly, they collected non-financial information from their clients and contractors. They became more focussed on both customer satisfaction and profitability. All three better controlled their resource consumption and monitored their production more frequently than before. They utilised their daily, weekly and monthly construction reports successfully for control purposes. In this way, all of the steps of the construction process could be identified and monitored, making it easier to identify the reasons for any delays. These results are consistent with findings of Baines and Langfield, (2003), Bhimani, (1994) ,Chenhall and Langfield-Smith, (1998).

Differences were also identified between the three companies. Firstly, with respect to managing its activities and the measurement and evaluation of performance, Company (A) had access to, and benefited from, the knowledge and experience of the Beltone Investment Group. In order to fully monitor the firm's actual performance, the company introduced a PES. The PES device outlined a job description for each employee and, through a series of bi-annual performance appraisal meetings between appointed supervisors and employees, the progresses of the entire staff could be controlled and employees held accountable for their performance. Secondly, neither Company (B) nor (C) used formal budgeting tools for cost control purposes, which is consistent with the findings of Hopper *et al.* (2004b), who detected a preference for informal methods of cost control in privatised companies in LDCs. Thirdly, Company (A)'s daily sales and contracting reports were very comprehensive, categorising company sales by means of project area, product line, and type of project. This advance in reporting allowed the company to apply controls at all levels and helped the firm to identify threats and opportunities, thus improving its overall financial and operating performance.

In summary, the MCS used by Company (A) could be said to have consisted of diagnostic methods which were developed into more direct, explicit and structured systems, while the MCS of Companies (B) and (C) became largely implicit. The MCS used by the latter two companies could in fact be considered as a mixture of belief and diagnostic systems. Neither company prepared formal budgets, preferring instead to formulate short-term production plans. In addition, both firms applied standard costing, monitored their production, measured their resource consumption, and tried to reduce wastage and costs. At the very least, they succeeded in significantly reducing the amount of paperwork required. As indentified from the previous chapter, top mangers became heavily involved in both company's' internal matters. As such, the capabilities and individual interests of the relevant top-level managers played a critical role in the process of MCS change in the Egyptian construction industry.

8.3.4 Firm performance

The discussions presented in this section centre around the changes in performance for each company after privatisation. Based on the results of the variant of MNR methodology, the discussion is presented according to the five main performance dimensions: profitability, operating efficiency, output, risk and employees' social responsibility (see tables 7.1, 7.2, 7.3, 7.4, 7.5 and 7.6).

Profitability

Company (A) enhanced its performance significantly after privatisation in terms of ROA, ROE and ROS. Such findings are consistent with Muggings, Nash, and Van Randenborgh (1994), D'Souza and Megginson (1999), Laurin and Bozec (2001), Omran (2001), and Sun and Tong (2003). Improvement in the profitability ratios of Company (A) can be seen to have been based on the following: firstly, the switch to wealth-maximisation goals and the use of formal MCS after privatisation. Secondly, exposure to market forces and the decline in the agency cost of equity due to the existence of effective private ownership of the Beltone Investment Group. Thirdly, exposure to the benefits and penalties of the open market motivated employees to raise revenues and lower costs.

On the other hand, no significant change could be identified in Company (B), while profitability ratios decreased significantly in company (C). The deterioration of profitability ratios in Companies (B) and (C) was due to the possession of a significant share of capital by the state, as the HCBC still remained the largest single shareholder in both companies despite the privatisation. This gave the government a dominant voice in decision making on the BOD. Hence, these firms were subjected to the objectives of the GEOHU, which were social objectives rather than profit oriented objectives. This is consistent with study of D'Souza and Megginson (1999) who observe that, when governments still have a significant influence on firms after privatisation, the firm might consider social objectives in favour of business objectives.

Operating efficiency

Company (A) increased its sales efficiency and income efficiency after privatisation. This increase is explained by the new investment, computerising the construction execution mechanism of the company and effective MCS. These results tend to be consistent with MNR(1994), Boubakri and Cosset (1998), D'Souzua and Megginson (2001), and Omran (2001), who also document significant increases in income efficiency and sales efficiency. Although Company (B) increased its income and sales efficiency significantly after privatisation, these results should be viewed with caution. Given that the denominator for the income efficiency and sales efficiency ratios is the number of employees, it is important to note that this significant increase in efficiency ratios in company (B) is contributed to by a significant decrease in the level of employment. Finally, Company (C)'s efficiency ratios decreased significantly after privatisation. This was due to marketing problems resulting from a high stock of goods and ineffective MCS.

Output

All three companies increased their real sales ratio significantly after privatisation. These results are consistent with the theoretical expectation of an increase in output following privatisation. This could be explained with reference to a number of factors. Firstly, these firms subsequently had greater access to private debt and equity markets than they had during the public ownership period. Secondly, the resources were used in a more economically efficient fashion and were reallocated to higher value uses after privatisation. These results are consistent with the finding of MNR (1994), LaPorta and Lopez-de-Silanes (1997) and D'Souza and Megginson (2000). However, by comparing the gross sales values with real sales values (after deflating it from inflation) there is an indication that the three companies were working within inflationary pressures. This inflationary environment came about as a consequence of the depreciation of the Egyptian pound accompanying its announced floatation in January 2003, resulting in a depreciation of its value exceeding 40%.

Risk

The study concludes that Company (A) achieved a statistically significant decrease in their mean (median) value for credit risk. The significant decline in the credit risk ratio was as a consequence of a number of different factors. Firstly, the company did not have the advantage of borrowing funds at a lower rate because of the GEO removal of debt guarantees which resulted in higher borrowing costs (14%). Secondly, the privatisation programme allowed the firm to access the public equity market, which meant that an alternative source of finance was available. Thirdly, the existence of effective MCS with clear responsibilities for the decision-making process found in Company (A), coupled with conservative strategy for acquiring new forms of debt to finance the firm, and effective assessment of the debt-paying ability and effective default-risk criteria which became embedded in the decision-making process. These results tend to be consistent with D'Souza and Megginson (1999), Boardman, Laurin, and Vining (2003), Omran (2001). All documented a significant decrease in credit risk after privatisation. While Company (B) had no significant change in its credit risk, Company (C) only decreased its long term debt to equity ratio.

All three companies had either no change or significant increase in the liquidity risk in terms of days of inventory and days of receivable. This could be explained by the following factors: Firstly; the complex terms and conditions for supplying goods on credit in the construction industry by nature, and the hard customer qualification criteria, together with lengthy procedures for making collections. Secondly, the accumulated government debts owed to the studied cases. Thirdly, huge price fluctuations of intermediate input and building material prices forced the firms to buy excess amounts of raw materials by means of hedging strategies and taking advantage of bulk discounts. These findings contradict the theoretical expectation of companies under private ownership.

Employees' social responsibility

There was a significant change in employee bonus payment and training in all three companies after privatisation. For Company (A) this could be explained by a shift towards more performance oriented pay schemes, larger wage differentials, and more flexible working conditions introduced by the Beltone Investment Group, which increased the level of employment significantly at the same time. For Companies (B) and (C) there was a reduction in the size of employment due to waves of downsizing and early-retirement programme which were made available to employees. These results tend to be consistent with Dewenter and Malatesta (2001), Cosset, and Guedlhami (2005), and Li and Xu (2004). All of these studies document significant decreases in employment levels after privatisation.

8.4 Development of the contextual factors

By means of integrating the findings of the historical descriptive analysis and the mixed methods case study approach, including its two phases; within the cases and across the cases, the development of internal and external factors that affected the MCS and firm performance across the three studied cases are presented in this section.

8.4.1 Internal factors

In this sub-section, the internal factors that played a role in the Egyptian construction industry are investigated. These factors are; organisational capability to learn, introduction of new technology, change in strategies, and capability to undertake actions.

Organisational capability to learn

The literature indicates that both the support of top-management and the size of a firm's Accounting Department are essential to the facilitation of MCS practice changes. The study results support this claim by demonstrating that Company (A) was in fact in a better position to innovate its MCS than the other studied cases. Company (A) was able to employ workers who were more qualified, and was also in a position to provide its workforce with continuous training to promote skills and knowledge. These findings are consistent with Wernerfelt (1984), Barney (1997), Oxtoby et al. (2002) and Grant (1995). On the other hand, Companies (B) and (C) could not execute radical MCS changes, due to cost problems and a shortage of qualified accounting staff. In addition, the management of Companies (B) and (C) lacked adequate accounting background to be aware of the importance of improving their MCS. As already argued, the management's knowledge, experience, and interests determined the firms' choices, which could hinder or facilitate the improvement in MCS and firm performance. However, it could be said that the innovations of MCS techniques were hindered in both companies due to insufficient experts, a lack of training and scarce resources with which to hire skilled employees.

A poor and inefficient system of public vocational education and vocational training centres, together with a lack of private training centres could explain the deterioration in performance of Companies (B) and (C). The number of trainees in both companies is presently around 245 a year, in addition to 140 trainees in industrial vocational training under the Mubarak-Kohl Initiative. These numbers are insufficient when compared to total employment in both companies. One of the main reasons for insufficient training is the reluctance of companies and workers to be engaged in training due to the temporary, project-based nature of the construction activities undertaken by the companies. Thus, the current system of training centres falls short of meeting the needs of the market in terms of quantity and quality.

Introducing new technology

As mentioned in chapter seven, the three companies modernised their construction machinery. The automation of their construction machinery enhanced the quality of their products, reduced their waste levels, and enabled them to predict the input-output relations, and benefited project execution and timing. In particular, Company (A) benefited from the introduction of a standard design for a single integrated roof system to span over three buildings for greater spans, and an in-built ceiling for energy efficiency. The company also computed its machine efficiency and line utilisation to monitor the construction processes. The introduction of new technology clearly had a favourable impact on the stability of the firm business processes, which in turn was beneficial to its MCS and firm performance. Moreover, advanced accounting improved the accuracy and timeliness of reports. These findings are consistent with Granlund and Lukka (1998), Kaplan, (1994), and Bruggeman and Slagmulder (1995).

Change of strategies

As noted in the previous chapter, to some extent all three companies became strongly focussed on strategies aimed at diversification and quality improvement. One of those strategies was to expand their market opportunities through adding new products to the existing product lines. Company (A) proved to be more successful in introducing better strategies intended for quality improvement, reduction in lead times, as well as flexibility concerning customers' requirements, and production costs. These results are in line with the findings of Callahan and Gabriel (1998) and Chenhall and Langfield-Smith, (1998b), which indicate a direct relationship between effective business strategies and good performance. However, poor management, shortage of managerial staff, lack of marketing knowledge, as well as the absence of advanced procurement management techniques could all help to explain the lack of effective strategy changes found in Companies (B) and (C).

Capability to undertake actions

Both Companies (B) and (C) suffered from a shortage of skills and competencies in order to operate successfully after privatisation. Shortage of well-trained skilled and semi-skilled workers, an insufficient supply of technical labour, scarcity of engineers and consultant engineers specialised in chemical and piping engineering, qualified accounting staff, and a lack of the resources prevented both companies achieving major changes in their MCS practices. It was observed that Company (C)'s management were concerned only with saving labour costs, while ignoring the importance of detailed accounting reports. The cost problems made them unwilling to hire new accounting staff. In the case of Company (A), radical MCS changes occurred and the company benefited from the commitment and support of the Beltone Investment Group, who gave the company full access to its experience, knowledge and resources. The Beltone Investment Group also succeeded in passing on its business mentality and ethics to the company.

In conclusion, the strategic alliance with a multinational organisation brought great advantages to Company (A), enabling the company to make use of an abundance of experience and resources and to achieve a considerable improvement in its MCS practices. Company (A) can be regarded as a standard example of a successful *'mimetic isomorphism'* process, whereby the company imitated the Beltone Investment Group, in order to fully benefit from the privatisation process. These results are similar to the findings of Greenwood and Hinings (1996), who claim that capability to deal with dynamic changing internal forces, has become a key determinant of firm performance and gaining competitive advantage.

8.4.2External factors

In this sub-section, the external factors that affected the studied cases' ability to improving their MCS and firm performance are discussed. Before proceeding with such discussions, it should be mentioned that the aid agencies and trade union variables have been dropped from the external factors list that was presented in table 3.2 in Chapter three. Although the role of the IMF and World Bank in forcing Egypt to implement its

SAP and privatisation programmes was quite significant, as mentioned in Chapter six, there was no any evidence to be found regarding their role in establishing stronger capital markets, introducing export zones, public sector reform, TU activities, party politics, government intervention, developing a market economy, increasing financial regulation or decreasing political intervention. Besides, there do not appear to be any strong ties between the Egyptian trade union and the three studied cases labour forces. Therefore, it is excluded as well.

However, the remainder of the external factors presented in Chapter 3 were all found to have to some extent a played a significant part in MCS change and firm performance in the Egyptian construction industry.

The role of the government

The GOE discarded its previous role in terms of development, leaving the same to the foreign investors and to the domestic private sector. Concurrently, SAP and the privatisation programme limited the state's social support of its society, resulting in a wide-reaching program for decreasing the social welfare system. Under this diminution of social programs, the GOE altered its historical position as the main supporter of low-income groups. Following the introduction of the SAP and privatisation policies, the theoretical role of the GOE transformed from an economic hegemonic to a more compliant role, appearing on official papers to be supportive of the private sector and foreign direct investment.

The role of the GOE in creating an enabling private sector environment was assessed according to two main themes; effective privatisation regulations and minimal political interference. Neither of these key conditions was found to be achieved. One could argue that the privatisation programme in Egypt progressed without any regulatory agencies in place. This contradicts what the GOE declared at the beginning of its privatisation programme; that the aim of privatisation was to increase competition in the economy and encourage the private sector. In addition, in the case of Companies (B) and (C), although the GOE declared majority selling of these companies in its official statistics, the GOE still remained the largest single shareholder in both companies after privatisation. This allowed the GOE an excessively large and dominant interference in the decision-making process on the company's Board of Directors. This demonstrates that, in the case of Egypt, the state still remains a very influential, if not controlling, force in the corporate and managerial decision-making of some privatised enterprises.

Culture

As mentioned in Chapter three, the theoretical expectation was that privatisation would change the cultural beliefs within privatised companies. The theory was that cultural beliefs would transform into modern capitalist attitudes, beliefs, and customs. Employees were expected to respond positively to modern MCS, economic rewards, labour contracts, and social homogeneity in the workplace environment. The overwhelming existence of individualism and self-improvement present under the traditional culture would be replaced by a new work mentality, a quality consciousness and a focus on continued improvement (Hopper *et al.*, 2004a). All of these expected changes were not entirely borne out by this study. Although the hierarchical promotion system has been changed to a meritocracy based system in Company (A), managers have still found it a difficult task to promote some workers on the basis of their contribution and merit alone, without causing offence to other employees. Mangers are still operating within the framework of psychological restrictions brought about by the SOE's seniority based promotions system.

On the other hand, there was little change to the corporate culture in Companies (B) and (C). Many of the middle managers kept their public sector management titles, implying that a culture of hierarchical management structure was still present post-privatisation. The lack of correspondence between wages and employment title remained as it had been under public ownership, which resulted in the departure of some of the more experienced and technically qualified staff. The rigid arbitrary and hierarchical authority still found in both companies post-privatisation led to obeisance and fear. In short, one could say that public sector cultural beliefs are still dominant in these companies even after privatisation.

Competition

The theoretical expectation regarding competition is that privatisation would enhance the competition level within the industry. A high degree of competition requires knowledge of cost issues, performance measurement utilisation, participation and effective MCS. In turn, competition stimulates a change to wealth maximisation strategies (Lin, Cai and Li, 1998, Hayek ,1945 and Leibenstein ,1966).

In the case of Egypt, one can argue that the increase in the relative size of the private sector did not necessarily translate into enhanced competition and increase in the private activity undertaking. Privatisation was achieved on paper, but the GOE actually retained a significant measure of control over the actions of the private firms. The studied construction companies faced a serious problem owing to ineffective competition in general in the construction industry, which resulted from the continuous increase in the cost of implementing construction activities. These obstacles affected their cost knowledge measurement utilisation, and in turn their MCS techniques and firm performance. These obstacles are several in numbers. Firstly, there have been significant fluctuations in the prices of land, especially over the last five years, due to speculation and a growing population. Secondly, there has been an unexpected and unjustified increase in intermediate input and building material prices, particularly steel and cement, which represent 16% and 12% of the cost of a residential unit respectively. The price of cement and steel increased between 2002 and 2008, by 152.6% for the former, and by 370.4% for the latter. Moreover, the percentage increase in both inputs during the first quarter of 2008 reached 33.6 % for cement and 78.9% for steel. The impact of increases in building material prices on the cost of a residential unit averaged 33% among the companies studied. Of this increase, cement prices contributed 4% while the impact of steel prices contributed 12.6%. Thirdly, there was a significant increase in the number of informal small firms producing low-price and low-quality building materials. Fourthly, implicit costs associated with the time and effort wasted due to red tape and corruption were significant. In general, competition among firms is based on cost advantage and low price. As a result, competition results in cost reduction at the expense of quality. These findings clearly show the failure of the GOE to create a suitable market environment for the newly privatised firms.

Industry regulation

The theoretical expectation regarding privatisation is that such policy should be accompanied by effective industry regulation in order to safeguard infrastructures, to maintain law and order, facilitate financial and commercial mobility to construction market relations, prevent market abuse, to reduce interference with private sector affairs, and to provide stable policies and fair legislation across the board (e.g. Bartlett et al. 2000 and Laffont and Tirole, 1993). Unfortunately, none of these conditions were met for the companies which form the basis of this study. The Egyptian construction industry regulation affected the MCS and firm performance of the studied cases in terms of its institutional and legislative framework, financing obstacles and barriers to export.

Firstly, there are two main institutions which govern and support construction firms in Egypt; the Egyptian Federation for Construction and Building Contractors (EFCBC) and the Egyptian Engineers Syndicate (EES). Despite their efforts in disseminating market information, the role of these institutions needs to be enhanced to assist in the development of construction firms. The achievements of these intuitions have been very limited, as they do not provide training in new areas such as high technology and marketing. They also face various financial and administrative problems. Moreover, the EES is currently under sequestration and is being managed by a sequestrator appointed by the Court rather than by its board of directors. The studied companies experienced difficulties in relation to unbalanced contracts, assigning government contracts by direct order, and lengthy Court procedures.

Secondly, accumulated government debts owed to construction companies resulted in poor cash flows and sometimes led to over-drafting. This problem was partially resolved later as government entities met some of their obligations and as a result of the ministerial decree 219/2006, which stipulated that they should obtain financial clearance from their financial controller prior to tendering. Nevertheless, the problem of compensating the companies for debts incurred since 2003 remains unsolved. Despite law 5/2005 and the approval of the Cabinet in April 2008 to compensate companies for contracts concluded since 29/1/2003, the technical committees in charge of assessing the price increases of building materials and accordingly assessing fair compensation face difficulties due to the complexity and the length of the period of assessment.

Thirdly, the Egyptian industry regulators do not grant companies financial aid to encourage exports in potential markets, whereas competitors in these markets receive financial support from their governments. On the contrary, the GOE delayed payments and compensation due to the companies, thus affecting their liquidity. The GOE has also imposed high customs duties on capital goods and equipment used in foreign markets, as well as a sales tax on these goods.

Macroeconomic polices

In Chapter six, the inflation-growth trends in Egypt were analysed. The main conclusion was that contemporaneous inflation has a robustly estimated negative impact on GDP growth and the overall economic condition in Egypt. The previous discussions in Chapter six highlight that somewhat higher, and more volatile, GDP growth rate is associated with a higher inflation rate prior to the application of privatisation, while lower and less volatile GDP growth is associated with lower inflation in the post-privatisation period. As mentioned in Chapter 3, the prevailing imperfect macroeconomic conditions distort the signalling effects of prices and lead to inefficient allocation of resources, which in turn negatively affects firm performance (Khan and Senhadji, 2001).

Several different macroeconomic policies had an adverse impact on the performance of studied construction companies. Firstly, the floatation of the Egyptian pound and its subsequent depreciation against the US dollar in 2003 led to huge financial difficulties for the studied firms. The complex process of compensating them for unexpected increases in building costs has not yet been put into effect. Secondly, companies face difficulties as a result of income tax and other fees. Companies are required to provide the tax authority with documents on 93% of their raw material purchases. In most cases, traders of these inputs refuse to hand receipts to companies who end up bearing a higher tax burden as a consequence. In addition to profession taxes and employee pensions, consulting offices have to pay other fees which are not related to the constructing profession. Thirdly, the interest rate on borrowing, which is 14% on average, has resulted in a shortage of financial resources in the studied firms, coupled with reluctance on the part of the banks to finance new construction projects. Following the devaluation of the pound in 2003 and the failure of some companies to meet their obligations toward banks, many banks refused to issue letters of guarantee, while others have insisted that companies cover the full value of the letter in advance.

In summary, it can be seen that, at the time that the privatisation policies were initiated, the external factors summarised above were not anticipated. Some of these findings are similar to those presented by Kennedy and Hobohm (1999) and UNIDO (1999), who studied privately owned firms operating in other LDCs.

To sum up, there are some drawbacks in reality when compared to the theoretical expected benefits of privatisation. The main drawbacks are the absence of any effective competition policy and any effective regulations, which have led in many cases to an inability to prevent anti-competitive behaviour. One also has to take into account the continued intervention of the GOE in the management of the privatised firms. It can therefore be concluded that role of the government, macroeconomic policies, culture, industry regulation, and trade unions in the country were external obstacles, which hindered to some extent the studied firms ability to achieve cost savings, effective MCS, the implementation of firms' investment and business plans, and eventually their performance as a whole.

8.5 Adaptation of the theoretical framework

According to the literature, the governments of LDCs are forced to carry out privatisation policies by the international lending agencies such as the World Bank and the IMF (Craig, 2000; Cook and Kirkpatrick, 1995). LDCs that look loans from the international lending agencies have no option but to accept (Cook, 1986) and implement such programs, although these have been criticised as unnecessary and lacking focus in relation to the actual fundamental problems (Ramli, 2003b). This study shows that the GOE committed itself to the introduction of privatisation like any other LDC country on the basis of its expected outcomes. The expected outcomes were, to reduce the state's budget deficit, to make the economy more competitive, to bring workers into share ownership, to contribute to the development of the capital market, to reduce the burdens to the exchequer, and to rebalance the distribution of power between the public sector and private sector. Egypt can be considered as an integral example of the movement from a centrally planned system to a market based economic system.

However, the success of privatisation depends on contextual preconditions, such as the establishment of solid policies, support institutions and regulations, the provision of training and a sufficient number of qualified people to labour markets. The literature shows that an appropriate environment in which these prerequisites can be met is absent in many LDCs (Kennedy and Hobohm, 1999; Chisari, 1997). It appears that the situation is no different in the Egyptian context. The Egyptian construction firms were not offered a proper competitive environment, and neither did they obtain adequate support from the GOE. Furthermore, in addition to the inconsistent macroeconomic policies that affected the Egyptian construction companies, the government regulations, culture, and industry regulation all posed additional obstacles to a favourable healthy business climate.

As per the initial conceptual framework presented in chapter four, it can be seen that this conceptual framework needs to be developed by distinctively emphasising the *percentage of government equity* after privatisation as another indicator for privatisation (see figure 8.1). In spite of the fact that the selling-off of 51% equity in an SOE to private investors is in most cases classified as privatisation, this study explicitly shows that in the case of Egyptian construction companies, the divestiture of 51% equity of an SOE does not necessarily lead to the transfer of control of such SOEs to new private sector shareholders.

In addition, a further refinement is needed to the lists of the internal factors and MCS techniques as presented in figure 8.1. This research shows that informal controls, for example, *direct supervision by managers*, played a more significant role in Companies (B) and (C) than in Company (A). These informal controls were substituted for some of the formal tools, such as inter-departmental and budgeting reports. Therefore, this factor should be added to the MCS techniques performed in the Egyptian context.

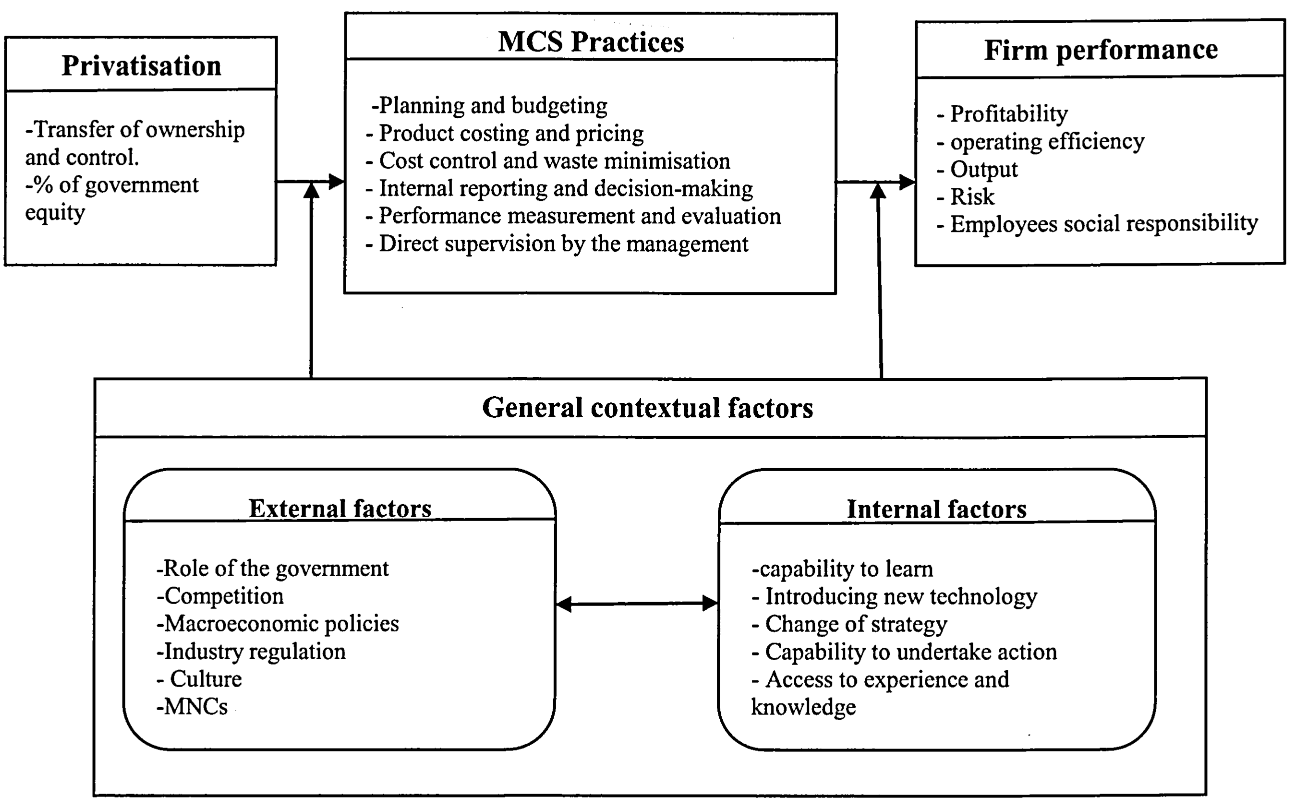

Figure 8.1: Revised conceptual framework of the study; the impact of privatisation on MCS and firm performance, mediated by the general contextual factors

On the other hand, in the case of Company (A), the dynamic participation of a *multinational corporation (MNC)* made a considerable external and internal contribution to the realisation of MCS change and firm performance. Not only provide external financial resources but it also supplies a "package" of needed resources including management experience, entrepreneurial abilities, and technological skills. These advantages transferred internally by means of training programs and the process of 'learning by doing', through providing effective access to experience and knowledge, and an ability to utilise the resources that were already available. Studying companies sold to a multinational strategic investor might form a good basis for comparison with other privatisation selling processes. Therefore, *access to experience and knowledge* should be added to the list of internal contextual factors. This factor would enhance the understanding of the influence of multinationals on firms in LDCs. If privatisation benefits are viewed as the implementation and introduction of advanced MCS practices and better firm performance, the example of Company (A) shows that the influence of a multinational strategic investor inspires the attainment of expected results regarding superior MCS and firm performance improvement. Firms sold via other methods did not achieve the same results. Therefore, this shows that multinational strategic investors have a greater ability to take action, and determines that the background and interest of the management, either to facilitate MCS change and firm performance or to hinder its development Further, it was observed that the introduction of modern MCS practices, for example, the detailed operational control system and the total quality system as used by Company (A), caused no practical problems. This result seems to invalidate to some extent the claim that Western MCS techniques are not appropriate for LDC companies. However, further research is still necessary to come to a definitive conclusion on this point.

In the case of Companies (B)and (C), firm performance and MCS improvement was hindered by the lack of an enabling external and internal environment, which corresponds to the findings of case studies conducted in Sri Lanka and Bangladesh (Hopper *et al.*, 2004a), which also obtained findings by including political and socioeconomic contextual factors. In order to conduct a reliable analysis of post-privatisation impacts in the context of LDCs, the researcher strongly recommend this approach. This theoretical framework is broad enough to tackle post-privatisation changes on a wider scale, and analyses MCS practices and firm performance during both the pre- and the post-privatisation period. In this way one can determine the changes taking place in firms after privatisation, and investigate the external and internal factors that enable or hinder performance. Hence, the inclusion of both the contextual factors and an analysis of both the pre- and post-privatisation periods has made the framework a more inclusive device by which to study the research topic in its wide-ranging context. This is mostly important in the case of LDCs since the business environment and prevailing conditions are not usually particularly encouraging.

The researcher believes that the empirical evidence gained from this study has increased the general understanding of the developments in the MCS practices and firm performance of companies operating in LDC countries. The contextual factors drawn from the institutional and contingency theories were useful since they allowed the researcher to undertake a comprehensive analysis of the post-privatisation changes in MCS practices and firm performance of three privatised construction companies in Egypt. This conceptual framework can potentially be suitably adapted to analyse companies operating in other LDCs. However, there are some specific issues that also require consideration, for instance the nature of the government's regulations and level of involvement in the process, the degree of competitiveness in the market, the level of economic growth, the prevailing culture, the institutional environment, the firms' managerial capability, and the nature of firm ownership. If these matters are appropriately addressed, and if the relevant external and internal contextual factors are considered, similar studies could be conducted using this framework. Hopefully, this research has made a contribution to the development of a structure that better enables researchers to study MCS activities and firm performance from LDCs perspective.

8.6 Implications for actual practice

This section presents the recommendations and implications for all three cases studied, and to the Egyptian government.

8.6.1 Implications for cases firms

Firstly, it is very doubtful that the persisting public sector corporate culture in Companies (B) and (C) will change unless public industry management titles are substituted with more commercial titles as employed in the private industry. Secondly, Companies (B) and (C) need to develop the accuracy of their costing systems in addition to the timing of their reports. In this respect, further investment in the computerisation of information systems would be beneficial, which would in turn facilitate the introduction of improved MCS. In addition, Companies (B) and (C) may need to consider strengthening their Marketing departments. A marketing unit can play a key role in providing information on the way in which competitors operate in the home market. As Company (A) has demonstrated, non-financial information is very valuable in developing strategies to survive competition to attract more customers and.

Thirdly, Companies (B) and (C) need to initiate an incentive system to motivate their employees, perhaps by sharing profits. If the workforce is sufficiently content and motivated, firm performance will improve.

Finally, the managerial and accounting staffs of both Company (B) and (C) are too limited in size and are inadequately qualified. It could be suggested that both firms need to improve their managerial capacity to enhance the utilisation of accounting information. Besides, the sophistication of MCS practices should go in parallel with improving the skills and knowledge of the accounting employees.

8.6.2 Implications for the GOE and interested bodies

Firstly, in relation to Company (C), the Chairman of the company following privatisation was also the Board of Directors' representative in the Holding Company which supervised the company prior to privatisation. Retaining both the position of Holding Company representative and Chairman of the privatised affiliate company on its Board of Directors can create a conflict of interest, since the same individual is caught representing the interests of the private and public sectors in the one privatised company. The GOE should separate these functions and to make sure that the Chairman of the privatised company does not also represent the Holding Company. The most effective method to do this is to make sure that there is 0% Holding Company equity in the newly privatised company.

Secondly, the GOE should take steps aiming to reduce Holding Company equity in privatised companies to 0% in order to allow the private sector full and proper control of management and corporate governance. As the best results achieved by Company (A) in this study were brought about by a sale to strategic investors, it can be recommended that the GOE continues to spread out it's efforts in the direction of employing this method of privatisation.

Thirdly, financial constraints should be eased to help construction companies expand the scope and size of their activities. In this respect, a top priority is to settle the delayed payments as well as other obligations owed by government entities to companies, and to set up a transparent and declared schedule of gradual payments. As well as ensuring a steady flow of cash to the companies, settlement of government arrears will also improve the companies' relationship with banks. It is important to add in an article to the bids and tenders law imposing penalties on government authorities in cases of delayed payments to construction companies. Reducing the interest rate on loans to companies is also necessary. It is also imperative that the GOE creates better relationships between the financial industry and the construction industry, in order to provide companies with sufficient support both locally and internationally. However, such support should be limited to certain types of construction activities needed in the economy, for example, infrastructure and middle and low-cost housing, and in certain targeted areas, e.g. poor, rural and urban areas.

Fourthly, this analysis has demonstrated that a shortage of trained workers strongly affected labour productivity and hence unit labour cost in the studied companies, which undermines their competitiveness in general. Encouraging formality of labour and developing human capital should be priority areas of reform. The analysis reveals that labour informality and job instability are major obstacles to providing training, as well as an insufficiency in the sorts of training actually available to workers. In this regard, the following aspects are of crucial importance:

- Private sector partnership is an important element in the training process. In addition to enhancing the training function of EFCBC, private sector companies should contribute to vocational training. Both positive and negative incentives are useful in this regard;

- Standardisation and accreditation of vocational training will ensure quality in the market and enhance competitiveness of labour in both local and regional markets;

- Enhancing companies' management, marketing and procurement knowledge, as well as strategic planning, by enrolling managers in relevant training programs will also be of benefit.

Fifthly, in order to reduce the cost of doing business and to compensate construction companies for fluctuations in input prices, it is imperative to activate and empower the Egyptian Competition Authority (ECA). This is also necessary to avoid future escalation in the prices of steel and cement. Moreover, there is a need for reducing bureaucracy and the amount of paperwork required to perform construction activities, such as registration and the issuance of construction permits. Also of great importance is the development of a database of construction companies and local and international markets in order to save time and effort and hence reduce costs.

Sixthly, proper and comprehensive institutional and regulatory reforms are required. Empowering the Federation as an independent entity and activating its role in training and in defending the rights of construction companies is vital. The Federation currently undertakes the role of regulator, with the Minister sitting as chairman of the board: As such, it is inherently difficult to ensure transparency and neutrality of the Federation's decisions, further emphasising the need for an independent regulator.

Finally, price stability should be emphasised as a major goal of the Egyptian central banks (CBE). Aside from this key objective, central banks in developing countries (including the CBE) are the dominant institutions in the financial market of their respective economies and, as such, bear other responsibilities. These include the structural development of the financial system, adequate credit creation for the private and public sectors, and external balance. In addition, when GDP is below its potential, monetary policy should avoid being restrictive to the extent of hindering output growth. A cautious course of action for the CBE is required to keep inflation as low as possible, and to avoid further devaluation of the Egyptian pound.

8.7 Limitations of the study and suggestions for future research

During the course of this study, it was difficult to gain access to all privatised construction companies. Managers of the initially identified firms did not recognise the potential benefits to be gained from participating in this research, and were thus unwilling to disclose data. Accordingly, the number of firms studied was limited to only three companies from the five initially targeted companies.

There is a dearth of literature explaining MCS practices from LDCs perspective. Neither is there much literature available which focuses on the impact of privatisation on firm performance in the context of LDC. So as to describe some concepts in Chapter four and to undertake a review of the empirical evidence, the researcher found it necessary to turn to Western-based literature and studies conducted in this field. The existing studies on MCS change addressed in Chapter four are mostly surveys, which merely give a factual account of the implementation of new MCS practices in privately owned LDC firms. Most of the studies that analyse MCS practice change have been conducted in the West. The majority of these studies do not pay any particular attention to the way in which the same techniques are often continually used after a change in ownership. Therefore, there is no significant empirical evidence to compare the study findings with. This study attempts to make a linkage between the influence of contextual factors and MCS practice changes, and firm performance. It has become obvious that this relationship is complex, and the researcher recognises that this particular field of research still needs a great amount of exploration. More empirical findings must be gathered via the case study approach in order to further validate the complex relationship between privatisation, MCS and firm performance within LDCs perspective.

It is apparent that the body of existing literature still does not provide a comprehensive review of MCS change, and firm performance in privatised LDC firms. Therefore, it is suggested that other researchers do further case studies in relation to the privatisation process in LDCs. Cross-country comparative case studies in particular will provide more knowledge about the influence of contextual factors and effects of privatisation. In this respect, the basic conceptual framework set out in this study might well serve as a stepping stone for potential similar studies in other LDCs. With regard to the Egyptian situation in particular, an in-depth and comprehensive analysis might be conducted in relation to the impact of privatisation on employment, competitiveness, governance and investment. To obtain more generalised results, a quantitative survey method should be initiated, using a detailed questionnaire to cover all privatised Egyptian companies in order to obtain the relevant data which will form the basis of analysis.

The recent events happening in Egypt motivated the researcher for suggesting another future area of research. The application of SAP, through both their structural reform phase and their short term macro-economic stabilisation phase, highlights how global changes have played a fundamental role in reshaping the structure of the GOE.

Despite the success that the SAP had on the Egyptian macroeconomic performance in the immediate period following implementation, the structural economic reform effect of the programme does not seem to have enjoyed same success as the stabilisation element of the programme. This policy has benefited certain groups at the expense of the majority. These policies have led to increased imports, higher basic goods prices, an expansion of corruption, and growth of debt, especially in the last five years. At the same time, these policies have also promoted illiteracy, poverty, malnutrition, income inequality, and accelerated deterioration in living conditions for the majority of poor people.

This policy weakened the autonomy of the GOE; it appears that it is no longer allowed to design and implement its own economic policies. While this has strengthened new classes, such as new businessmen and other interest groups, it has had a distressing consequence upon the general population. Besides, the failure of the government in minimising these negative impacts of the policy. Rather than supporting democracy and transparency, the GOE depended on its security forces, such as the police, army and controlled media. The GOE took on the job of defending a regime that undermined the fellow citizens' living standards. This might partly explain the recent revolution of January, 2011. However, further studies are still necessary to come to definitive explanations to this revolution, which considered being another turning point for contemporary Egypt.

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Appendix A

Study	Study period	country	Sample and Methodology	Summary of Results
Ashour,el al (1988)	1979-1984	Egypt	Investigated the effect of ownership structure types on the performance of 21 Egyptian SOES , which have a negative Average on the operating income, and no one firm was able to achieve stable on return. Only one third of the sample was able to achieve return on borrowed funds that exceed 5% and 50% from the sample failed to achieve any return.	The Egyptian SOES did not have any clear policy for collection liquidity although they were enjoying a monopoly. Also, Egyptian SOEs were depending on the expensive short-term debts, and not depend on the less Expensive longer term debts, thus increasing their cost of capital. Furthermore. Total asset turnover was found to range between 1 to 2.5 turn per year, The study stressed that private ownership is better than SOEs.
Boardman Vining (1989)	1983	U.S	Investigated the performance on ownership structure change of the 500 largest non- industrial firms. Using four profitability ratios and tow measures of X- efficiency.	Both state-owned and mixed firms are significantly less profitable and productive than privately owned firms and mixed ownership firms are not more profitable than pure state-owned firms.
Boardman , Laurin , Vining (2003)	1988-1995	Canada	Examined the performance of 9 Canadian firms. Compared 3- year post-privatisation financial and operating performance ratios to the 5-year pre-privatisation. Employed the MNR methodology to estimate the magnitude of privatisation related performance.	The profitability firm increases more than doubles after privatisation, while the efficiency and sales also increase significantly. leverage and employment declined significantly , while the capital spending increases Significantly.
Boubakri Cosset (2003)	1989-1996	Africa	Investigated the performance change pre-privatisation versus post-privatisation performance of 16 African firms privatised through public share. Used the same methodology of MNR 1994.	There are a significantly increases capital investment spending by privatised firms, but only insignificant changes in profitability , efficiency , output, and leverage .

Study	Study period	Country	Sample and Methodology	Summary of Results
Boubakri and cosset (1998)	**1980 - 1992**	**Developing and developed countries**	Examined the performance of 79 privatised firms from 21 developing countries and 32 developed countries. Compared 3 year post- privatisation financial and operating performance ratios to the 3- year per-privatisation. Using the same methodology of MNR 1994.	The performance firm was increased; in generally, increase more than those documented by MNR, the mean and median levels of profitability, real sales and operating efficiency increase significantly as well as significant decreases in leverage. In addition, capital investment spending increases- but insignificantly, while employment declines significantly.
Bortolotti.3b.souza, fantini, Megginson (2002)	**1981 – 1998**	**Different countries**	Analysed the per-privatisation vs post- privatisation performance of 31 national telecommunications firms fully or partially privatised by lpo. Used the MNR methodology and employed control such as GDP per capita in their regression estimations to make cross-country comparisons possible; then, run panel data estimations to analyse performance over time in concepts of ownership changes and structural changes due to regulatory reforms occurring during 1981 -98 .	After privatization, profitability, output, efficiency, and capital investment spending increase significantly; but leverage and employment decrease significantly. In addition to that, the financial and operating performance of telecommunications firms improves significantly after privatisation, but a significant fraction of the observed improvement results from regulatory change(alone or in combination with ownership change) rather than from privatisation alone.
Boubakri, cosset,and Guedlhami (2002)	**1980 - 2001**	**Developing countries**	Used sample include 209 privatised firms from 39 developing countries to examine what are the ownership structure results from privatication and how it changes subsequently ; how the level of ownership protection impacts post – privatisation ownership structure; and how ownership structure and investor protection are related to firm performance .	Successful privatisation requires that relinquishing governments control of the priavtised firms over the first three years after initial sale directly. In addition, there is a significant negative impact on the firm's performance in the case of interaction between the legal protection and concentration of ownership.

Study	Study period	country	Sample and Methodology	Summary of Results
Cabanda and Ariff (2002)		Japan ,Philippines, Malaysia, Australia	Analysed the financial and operating for telecommunications privatised firms in Japan, Philippines, Malaysia, and Australia which, fully or partially privatised over an extended time period (more than twelve years). Used the MNR testing and use Date Envelope Analysis (DEA) to measure performance changes.	The privatised firms achieve productivity gains around 3% to 50%; and three of four countries' telecommunications saw a significant increases in total factor productivity (Japan, Philippines, and Australia). Also, the profitability increases in two of four countries (Malaysia , Australia).
Chirwa (2004)	1984 - 1997	Malawian	Analysed data from six privatised Malawian firms, three SOEs, and six private firms. Used panel regression analysis to examine data collected of these firms from 1970-1997.	Privatisation process increases the technical efficiency of privatised firms, also increased the efficiency of all firms. In addition, other factors affected the technical firm's efficiency such as capital intensity, and structural adjustment program.
Claessens and Djankov (2002)	1991 – 1995	Seven transition economies	Compared the changes in the performance of 6354 privatised firms and SOEs in seven transition economies, including all manufacturing firms that were registered as state-owned in 1991 and had more than 25 employees through 1991-95. Performance was measured by sales and labour productivity, which increased.	In six of seven countries, privatised firms showed higher sales growth or smaller decline in sales than SOEs. Also, privatised firms reduced their sales by 6.11% versus 7.42% for SOEs. Thus, privatisation program is related with significantly increased sales and productivity growth rate.
D'souza and Megginson (1999)	1990 - 1996	Developing and developed countries	Tested the success of privatisation programs in 85 firms from 13 developing countries and 15 developed countries. Compared 3- year average post – privatisation financial and operating programs ratios to the 3-year per-privatisation.	The mean and median levels of profitability, real sales and operating efficiency increase significantly as well as a significant decrease in leverage and employment. Also, capital investment spending increases, but insignificantly. Furthermore, privatised firms that work in competitive industries are likely to yield solid and rapid economic benefits.

Study	Study period	country	Sample and Methodology	Summary of Results
Dewenter and Malatesta (2000)	1975 - 1995	U.S	Investigated the impact of privatisation and ownership structures on the 500 largest international firms. As reported in fortune magazine for 1975. 1985 and 1995 and used 1369 total firm years and more recent data for 147 SOEs. Selected the matching private firm, according to firm size, industry and business cycles. Used the same approach of Boardman and vining 1989.	Private firms are significantly more profitable than SOEs. Also, private firms have significantly less debt and less labour-intensive production processes. Thus, this study stresses that private ownership is better than SOEs.
Dewenter and Malatesta (2001)	1975 - 1985 – 1995	Developed countries	Examined the performance of 63 large information privatised firms. Compared pre- versus post – privatisation performance over both short-term and long-term. Also tested long-run stock return performance of privatised firms and compared the relative performance of a large sample (around 1,500 total firm-years) of SOEs and private firms from three separate periods 1975, 1985, and 1995.	There are a significant increase in profitability and a significant decrease in leverage and labour force over both short and long-term comparison horizons. Operating profits increased only prior to privatisation. Also, there are a significantly positive long-term abnormal stock return, mostly concentrated in Hungary, Poland, and the United kingdom.
Earle (1998)	1994	Russia (soviet Republics)	Examined the effect of ownership structure types on the performance of 430 firms included 86 SOEs, 299 privatised firms (partially), 45 private firms. Using OLS regressions and adjusted empirical methods to explain the tendency of insiders to claim dominant ownership in the best of privatised Firms.	There is a Private effect of private ownership, relative to state ownership, on the firm's productivity. Also, outsider ownership, are significantly related with productivity improvement.
El- shahat (2003)	1994 - 1998	Egypt	Compared the pre- and post privatisation financial and operating performance of a sample of the Egyptian constructing sector. Used T-test to measure the significance of the changes in the operating and financial indicators.	Following the privatization program, there was a general increase in the profitability and labour productivity, as well as a general improvement in the financial risk. Also, there are declines in the liquidity of accounts receivables after the privatization.

Study	Study period	country	Sample and Methodology	Summary of Results
Ehrlich, G.Hamonno, Liu,and Lutter ((1994)	1973-1983	Different countries	Tested the productivity differences between state-owned and privately owned firms. The sample of study consisted of 23 comparable international airlines of different ownership categories (state owned, private owned, and mixed owned) over period 1973-83.	There is a significant link between ownership types and rates of productivity growth; private ownership leads to higher rates of productivity growth and declining costs in the long run. Furthermore in long run. The change from complete state ownership to private ownership leads to increase the rate productivity growth and decrease the rate of unit cost; but the partial change has little effect on long run productivity growth.
Heng, Sun, and Tong (2004)	1964-1998	Singapore	Investigated the financial and operating performance changes for 31 Singaporean firms privatized through IPO during 1964-98 Used MNR tests first then used regression analysis to show that output and leverage improve after privatisation.	There is a little positive performance changes after privatisation because SOEs in Singapore well managed before privatisation.
Frydman Gray Hessel, and Rapczynski (2000)	2000	The Czech Republic and Poland	Found the imposition of hard budget constrains is alone enough to improve corporate performance. The sample study consisted of 216 Czech, Hungarian, and polish firms; 67 SOEs, 93 privatised firms, and 56 private firms.	The privatisation process led to increase of 10 percentage points to the revenue growth of the firm which sold to outside owners. Also, presented important results about the threat of hard budget constrains for poorly performing SOEs, since governments are unwilling to allow these firms to fail and thus channel additional credit to the SOEs from state controlled banks.
Frydman, Gray , Hessel, apczynski (1999)	1999	Czech Republic, Hugary and Poland	Investigated the performance of privatised and state owned firms in the big three transition economies of central Europe by comparing the performance of 90 state-owned with 128 private Czech, Hungarian, and polish firms. Used panel data regression method to separate ownership effects.	The privatisation process adds more than 18 percentage points to the annual growth rate of the firm sold to a domestic financial firm, and 12% when sold to a foreign buyer. Further, privatisation works when the firm is controlled by outside owners, it means controlled by other than managers or employees.

Study	Study period	country	Sample and Methodology	Summary of Results
Galal, Jones, andon, Vogelsang (1994)		Britain, Malaysia, and Mexico	Examined the performance of 12 large firms, mostly airlines regulated utilities. Compared the actual post-privatisation performance of them with predicted performance of these firms had they remained SOEs. Used counter-factual approach.	The welfare gains in 11 of 12 cases considered that average 26% of the firm's pre-privitisation sales. Also, no case where workers are made significantly worse off; and three where workers are made significantly better off.
Gregorian (2000)	1995-1997	Soviet Republics.	Instigated the impact of ownership structure on the performance of 5300 small, medium, and large Lithuanian firms. Using regression analysis to examine 618 firms that were still state owned in 1995; more than half of these firms were partially privatised.	Privatisation program has brought significant performance improvements, but there was negative bias in selecting firms that candidate to privatisation.
Harper (2001)	1992-1994	Czech Republic	Examined the impact of privatisation on the financial and operating performance of 174 firms privatised in first wave and 380 firms privatised in the second wave. Compared the results for privatised firms with those which remained SOEs. Used MNR 1994 methodology to measure changes in the performance of privatized firms and SOEs.	The first wave of privatisation yielded poor results; all real sales, profitability, efficiency, and employment declined significantly. In the second wave, there was significant increase in both profitability and efficiency; but there were decline in employment (still significant change); 17% in second wave versus 41% in first wave.
Jones and Mygind (2002)	1993-1997	Estonia	Investigated relationship between ownership and productive efficiency. Used fixed-effects production function models. Using a random sample of 660 Estonian firms and collected data set from to study the relationship between ownership and productive efficiency for SOEs, privatized firms and private firms.	All styles of private ownership are more productive, through concentrated managerial ownership had the largest effects; privatisationin Estonian created a widely varied ownership structure; and the productivity of foreign-owned firms were higher than the productivity of domestically owned firms.
Jones, Jammal, Cccokgur (1998)	1998	Cote d'voire	Investigated the performance of 81 privatised firms covering the electricity sector and other firms operating in competitive market in agriculture and service sector.	The performance of privatized firm is better after privatisation than they would have under continued state ownership. Also privatisation program contributes positively to economic welfare with annual welfare benefits equal 25% of pre-privatisation.

Study	Study period	Country	Sample and Methodology	Summary of Results
Kocenda and Svejnar (2003)	2003	Czech Republic	Examined the impact of six categories of ownership types on firm's performance after privatisation. Using a data set form 2529 to2949 observations on an unbalanced panel of 1371-1540 medium and large Czech firms.	Foreign ownership improves the performance of privatised firms relative to state firms. But domestic private ownership does not improve its performance. Thus, ownership concentration is generally related to improving performance.
Kwoka (2002)	1989	U.S	Investigated the impact of ownership structure on the firm's performance. Compared the performance of 147 investor-owned electric utilities with396 utilities owned by municipalities operating.	Public and private owned utilities were largely specialized in different activities, with owned electric utilities dominating electricity generation where they had cost advantages related to economies of scale. Also, municipality owned utilities were more competitive in electricity distribution. Thus, the study stressed no difference in the performance firm based on ownership.
La Porta , López-de-Silanes (1999)	1992	Different countries	Tested the performance of 218 state on enterprises privatised after privatisation and compared its performance with industry-matched firms.	There is positive effect on the output of privatised firms which increased around 54.3%. Increased in the operating profitability of privatised firms around 24% compared with the operating profitability for SOEs. In addition, the privatised firms reduced the need for subsidies equal to 12.7% of GDP.
Laurin and Bozec (2001)	1981-1997	Canada	Analyzed productivity and profitability of two large Canadian rail carriers (one SOE and one private sector), per and post-privatisation. Used accounting ratios from 17 years for financial statements and divided it to three periods: from 1981 to1991 (the state owned period); from 1992 to 1995 (the pre- privatisation period); and from 1992 to 1997 (the post-privatisation period).	There is significant increase in productivity for privatised firm after privatisation. Total productivity of Canadian SOEs is lower than private owned during 1981-91 but become just efficient during 1992-95 then exceeded it after 1995. in addition, the employment for Canadian SOEs declined by more 34% versus 18% for private firm

Study	Study period	Country	Sample and Methodology	Summary of Results
Li and Xu (2004)	**1981-1998**	**Different countries**	Evaluated the method of privatisation, specially, IPO method versus asset sale method. Also, examined the impact of privatisation and competition on output growth, tendency to shed labour, total factor productivity, net work expansion, and improvements in labour productivity. Used a panel data set of privatisation from 166 countries between 1981-98 and collected data about competition from 43 countries through 1990-98	Privatisation has significantly positive impact on output growth, network expansion, total factor productivity, and labour productivity. Competition leads to higher employment, higher output, and faster network expansion. Increases the gains from
Martin and Parker (1995)	**1981-1988**	**U.K**	Examined the performance of 11 British firms privatised after privatisation. Used return on invested capital found improved profitability and annual growth in value added per employee-hour to measure efficiency.	Less than half the firms performed better after being privatised. Also the study found evidence of a "shake-out" effect upon privatisation announcement, where several firms improve performance prior to being privatised but not after privatised. Privatisation, and vice versa.
Megginson and Boutchkova (2000)	**2000**	**Different countries**	Compared the number of stockholders in the privatised firms to the number of shareholders in private sector firms. Selected the matching private firm, according to the nearest total market value in the Business Week list. Used a sample from firms that have ownership structure included at least 250.000 shareholders. The final sample contained a86 privatised and private firms couples. Used the Wilcoxon signed rank test to explain the mean number of shareholders of privatised firms Wes significantly higher than that of the private matching firms.	The privatised firms had a much larger number of shareholders, this fact due to governments usually retain sizable stakes in these firms, which led to reduced effectiveness of privatised firms, since these stakes remained unsold to private investors. In addition, the number of shareholders of the privatised firms was significantly higher than the number of stockholders in the matching private sample firms.
Mubari and Oriani (2002)	**1980-1997**	**European countries**	Examined the impact of privatisation on research and development (R&D) before and after privatisation. Compared pre and post privatisation R&D efforts of 35 companies that were fully or partially privatised in nine European countries. Used the citation intensity to measure the quantity of patents.	There is persuasive evidence that privatisation processes lead to a significant increase in the quantity and quantity of patents.

Study	Study period	Country	Sample and Methodology	Summary of Results
Megginson , Nash, and V.Randanborgh (1994)	1961-1989	Different countries	Examined the performance of 61 privatised firms from 18 countries and32 different industries. Compared 3year average post-privatisation financial and operating performance ratios to the 3-year pre- privatisation. Tested significance of median changes in post- versus-per-privatisation. Also, employ binomial tests for percentage of firms changing as predicted.	There are significant increases in real sales, operating efficiency, profitability, capital investment spending and dividend payments, as well as the significanant decreases in leverage. Furthermore, there is no evidence of employment declines after privatisation.
Mubari and Oriani (2002)	1982-1987	Western European	Examined the impact of privatisation on the research and development (R&D) investments, the valuation, and the performance. Used Tobin's Q and a hedonic model to measure the change of ownership related to performance. Feasted data set of 20 western European firms privatised though public share offering during 1982-1997 and matched control set of20private firms. Calculated the R&D Coefficient for those firms, which equal 7.5for private firms versus 1.3 for the privatised firms.	After privatisation, the R&D investment initially declines (related to assestes) while Tobin's Q increases, thus, the market valuation of newly privatised firms doesn't respond negatively to decline. Newly privatised firms have lower mean values of the R&D related to assets, the R&D capital related to assets, and Tobin's Q Also, the mean debt levels of privatised firms have higher than private firms. In addition, the stock market values of the R&D involvement firms. At less than half the level of private firms.
Omran (2007)	2000	Egypt	Investigated the impact of privatisation and ownership structures on 12 Egyptian joint-venture banks that were fully or partially. Evaluated the performance changes in privatised banks on matched adjusted basis-private-owned banks. State- owned banks, and mix-ownership banks with majority private ownership or majority State-ownership banks. Employed several fixed-effect regressions over the entire study period to capture the impact of ownership structure on bank performance, also used majority State-ownership banks and State- owned banks as benchmarks.	It provides strong evidence that banks with higher private ownership involvement are associated with better performance. The relative performance changes of privatised banks are better than majority State-ownership banks and worse than State-ownership banks. In addition to that, some profitability and liquidity ratios declined significantly, whereas other performance measures asset quality, capital risk indicators, operating efficiency, and asset growth show insignificant changes.

Study	Study period	Country	Sample and Methodology	Summary of Results
Nawbery and pollitt (1997)	1990	U.K	Examined the specific aspects of Britain Privatisation program. Comparing the actual performance of the UK's central Electricity Generating Board (CEGB) to a counter – factual CEGB had remained state owned.	There are significant post-privatisation improvements and permanent cost reduction of 5 % per year. Producers and shareholders captured all this benefit and more, but consumers and the government lose.
Omran (2001a)	1994-1998	Egypt	Investigated the performance change for 69 Egyptian firms privatised during 1994-1998. Used the same methodology of MNR 1994. The sample included 33 Egyptian firms were majority sales, 18 Egyptian firms were partial, 12Egyptian firms were sold to Employee shareholding Associations (ESA), and 6 Egyptian firms were sold to anchor investors.	After privatization, there are significant increase on the profitability, operating efficiency, capital spending, dividends, and liquidity, in the same time, significant decline on leverage, employment, and sale to ESA works better than others.
Omran (2004)	1994-1998	Egypt	Examined the performance of 54 newly privatised Egyptian firms against a matching numbers of firms that remain state-owned enterprises (SOE). Used the same aooroach which in his study 2001.	SOE's performance improves significantly during Post-Privatisation period, and privatised firms did not perform any better than SOEs. This study did not specify whether the performance improvement in the economic performance of enterprises as a result of the privatization program in Egypt or due to the benefit of the privatised firms and SOEs from a general opening up of the Egyptian economy during the study period.
Otchere (2002)		Developed and developing countries	Examined stock price reaction of 314 industry counterparts to the privatistion announcement for 121 firms are to be privatised via IPO to conclude the expected impact of privatization on the performance of firms. Used a data set of 29 developing countries and 28 industries.	Competitors react negatively to privatization announcements, losing 1.72% of their value over the reaction of firms in developing countries stronger than in developed countries. The reaction of rivals to a full privatization announcement was larger than that of a partial privatization announcement.

Study	Study period	Country	Sample and Methodology	Summary of Results
Sun, jia, and tong (2002)	1997	Malaysia	Compared financial and operating performance ratios pre- versus post- privatization for 24 Malaysian firms privatised via IPOs by the end of 1997. Use the MNR methodology to estimate the magnitudes of privatization related performance, then used panel data regression to test the sources of performance, then used panel data regression to test the sources of performance changes.	Privatised firms increase their absolute level of profits threefold, more than double real sales, in the same time, reduce leverage. Also, stocks of privatised firms earn normal returns. Finally, institutional investors had a positive firm performance.
22 seal and parker (2003)	1989	UK	Examined the productivity and price performance of the privatised water and sewerage companies after privatization and imposed a new regulatory regime in 1989. Investigated the joint impact of privatization and new economic regulatory environment on firm's performance. Measured the firm's productivity growth by total factor productivity (TFP).	After privatization, there is increase in out put prices which outstripped increased input prices that lead to significantly higher economic profits. Also labour productivity improved after privatization. No significant evidence that productivity growth is improved by privatization.
Shahria shahid (2002)	1991-2001	Egypt	Analysed the achievement of the privatization program in Egypt since its beginning till the end of 2001. Study mentioned that the main method of privatization adopted by the Egyptian government was IPOs via the stock market. Evaluated the performance of priatised SOEs by comparing post privatization.	The Egyptian government used IPOs method to give a boost to its privatization program and to increase activities on the stock market. The majority of firms had a reduction in their valuation, mainly due the overall negative macroeconomic circumstances that Egypt has suffered from since 1997.
Sun and tong (2003)	1994-1998	chine	Evaluated the performance of 634 Chinese SOEs and analyzed the impact of ownership structure (state and private shareholding). Used MNR methodology to evaluate the change of performance before and after privatization, and partial privatization improves firm's profitability, output, and its efficiency.	After privatization, there is significant improvement in both return on sales, real sales, employee productivity, and the level of real profit. In addition. Ownership structure have effect on firm's performance; state shareholding hinder performance, but private shareholding promote to improve performance.

Study	Study period	Country	Sample and Methodology	Summary of Results
Vining and Boardmean (1992)	**1961-1989**	**Canada**	Examined the impact of ownership structures and the degree of competition on the efficiency of SOEs. Used the same approach which used in their study in1989. Used a sample of 12 SOEs. And 93 Canadian private firms to re-examine the state versus private ownership.	At low levels of competition, the differences between public anc private ownership would be insignificant, as both types of firms woulc adopt similar rent seeking behavior. When competition increases private ownership offers incentives and motivation for managers tc productively adopt profit-maximizing behavior.
Verbrugge, Owens, Megginson (2000)	**1981-1996**	**Developing & Developed countries**	Analyzed the performance change pre-privatisation post-privatisation Performance for 32 banks in developed countries and 5 in developing countries. Also, examined the offering terms and share ownership results for 65 banks fully or partially privatised through this period.	There are significant improvements in the privatised banks ir developed countries. Also, significant increases in the ratios o profitability, net income, and capital adequacy; as well as a significan declines in leverage
Villalonga (2000)	**1985-1993**	**Spain**	Investigated the effect of ownership change on the performance of twenty four Spanish firms that were fully privatised during 1985-93.	There are insignificant changes in the level and growth rate o efficiency after privatisation; conversely, significant positive effec found for business cycle; and positive increases in efficiency improvement for capital intensity. Concluded that privatisation leads to decrease in efficiency in the intermediate term, conversely, in the long term, it leads to improve in efficiency

Appendix B

Questionnaire 1
(Employees who were directly involved with MCS practices)

Respondents involved:
Chairmen and/or Board of Directors (BOD) representatives;
Heads of the finance and accounting;
Accountants.
Retired workers and/or employees.

External factors

Culture

1. How would you describe the organisational culture after privatisation?
 -Modern capitalist attitudes (beliefs, and customs either exist already or will develop)

2. Do you believe that Employees positively responded to labour contracts, economic rewards, and modern MCS?
 -Social homogeneity in the workplace environment.
 -A meritocracy based system.
 -New work mentality (quality consciousness, focus on continuous improvement).

Trade union

3. How would you describe the role of trade unions after privatisation?
 -Protect the rights of the employees (appointment, dismissal, rewards, sanctioning, raise in salary, benefits).
 -stimulate the consensus between the union and enterprises.
 -Develop education and training programmes to increase employees' skills.

Industry regulation

4. How would you describe the regulation in the industry after privatisation?
 - Safeguard infrastructures (maintain law and order, facilitate financial and commercial mobility)
 -Construction market relations (prevent market abuse).

5. To what extent you believe that the industry motivate investment and fair functioning?
 -Stable policies, legislation and political systems.
 - Solve problems (price controls, and foreign exchange controls, heavy taxation, restrictions to employment, and requirements for the use of local supplies).
 - Transparent bidding.

Competition

6. How would you describe the industry competition after privatisation?
 - Competitive (price takers, quality, fairness, quality).
 -Changes of strategies.
 - Changes of MCS.

7. What is the impact of competition on MCS techniques during post-privatisation period?
- Cost issues knowledge (performance measurement utilisation, participation and effective MCS).

Internal factors

Organisational capability to learn

8. How would you describe the amount of MCS techniques and management accounting staff present in your organisation?
- Degree of organisational capacity

9. How would you describe the support of top-management for MCS innovations and managerial effectiveness?
-The extent of MCS knowledge (the interest in and approval for use, the expertise of managers affect the design and operation of MCS).

Introducing new technology

10. How would you describe the nature of the construction process and the degree of routine in the organisation after privatisation?
- Changes in production technology, uses of budgets as control devices.

Changes of strategies

11. How would you portray the organisational strategic orientation towards differentiation or low price directions after privatisation?
-Provision of: on time delivery, high quality products, effective after-sales service and support.

12. What are the post-privatisation changes in organisational design and introducing new products?
- make products widely available (rapid volume product mix changes, emphasis on cost control).

Capability to undertake actions

13. How would you express the availability of skills and resources within the organisation after privatisation?
- Personal behaviour, perceptions, trust, experience (knowledge of managers/Chairmen concerning MCS).

14. What are the major processes done by the organisation towards modernising MCS system during post privatisation period?
- Power to enforce implementation of MCS practice change.

Management Control System (MCS)

15. How would you portray the planning and budgeting techniques in your organisation before and after privatisation?
-Advanced budgeting (process of preparation and level of participation)

- Strategic profit planning
- Level of operations planning
-Long-term planning (Capital Budgeting)
-Co-ordination of activities

16. How would you illustrate the internal reporting and decision-making process within the organisation used before and after privatisation?
- Communication of MCS information (frequency of reporting information, timeliness and accuracy)
-The extent of using more non-financial measures
-Information reported more broadly
-Use of existing systems but interpreting the results differently
-Decision-making responsibility (effectiveness)

17. How would you describe the product costing and pricing during post-privatisation period when it compared to the public ownership?
-Type of costing system (Actual costing vs. Standard costing, Absorption vs. Variable costing)
-Nature of cost accumulation and allocation
-Type of pricing system and use of MCS information
-Freedom in pricing

18. How would you depict the cost control and waste minimisation activities before and after privatisation?
-Applying quality control methods
-Improvement in waste minimisation techniques

19. What are the performance measurement and evaluation process utilised by the organisation before and after privatisation?
-Measurement of performance in terms of quality
-Measurement of performance in terms of customer satisfaction
-Measurement of performance in terms of delivery innovations
-Reward systems (bonuses and salary increments)

Questionnaire 2
(Employees who were indirectly involved with MCS practices)

Respondents involved
HR and Marketing department;
Sales and contracting, Inventory department;
Construction workers;

1. How would you describe the organisation generally after privatisation?

2. How many employees report to you?
   - Amount of hierarchical layers.
   - Span of control middle management.
   - Number of (project) teams.
   - Team size.

3. Do you use advanced and formal MCS?
   - Which techniques
   - Product groups / markets / product lines
   - Why this technique/
   - is it a convenient process.

4. What do you consider the have been the main consequences of privatisation for your organisation?

5. Do you think that privatisation accessed new technology and qualification to your organisation?

6. Which department has greatest benefits since privatisation?

7. What have been the main effects of organisational structure on your career with organisation?

8. What is limiting your authority? Do you have autonomy for some decision-making?

9. Do you believe that your organisation had a distinctive culture since privatisation? Can you describe it?

10. Do you believe that new management after privatisation allows employees to share knowledge and values? How?

11. Do you believe that MCS provide adequate information for decision-making?

12. How is the communication process in your organisation?

13. Are you satisfied with the level of exchange of information? Why?

14. What are the new investments made in fixed assets after privatisation?

15. What are the major product differentiations strategies adapted in your organisation after privatisation?

16. What are the MCS techniques to serve customer preference applied by you organisation?

17. Do you believe that your organisation strategies enhancing the performance of your firm? How?

Governmental respondent's interviews questions

18. How the Egyptian government support and safeguards the implementation of the privatisation process in the industry?

19. What are the major polices legislation and regulations adapted by the Egyptian government to support the privatisation process in the industry?

20. How the Egyptian government support and safeguards the implementation of the privatisation process?

20. What are the actions done by the construction trade unions to protect the right of employees with respect to issues such as appointment, dismissal, rewards, sanctioning, raise in salary and benefits?

21. How the construction trade union stimulate the consensus between the union and enterprises?

22. What are the Egyptian government agencies activities to develop and train employees within the industry?

23. How do the IMF and the World Bank encourage Egypt to adopt structural adjustment policies?

24. How do the IMF and the World Bank assist Egypt in creating suitable business environments?

25. What were the actions done by the Egyptian governments to achieve better business climate for the privatised construction companies?

26. How the Egyptian governments sustained growth for better jobs opportunities in the industry?

Appendix C

Company (A) Raw accounting data

	T/A	Equity	L/T/D	S/T/D	Sales	EBIT	A/R (net)	C.o.g.s	Inv	CPI(deflator)	EMPL	Emp. bonus	Train. cost
85	189855	69542	14589	8996	70896	9786	27856	59856	37896	8586	4596	69	1.8
86	188695	69156	14986	9102	68456	9452	26859	57965	36529	16334	4610	69	1.9
87	187452	68754	14995	9508	66235	9203	25631	57026	35419	13042	4622	70	2.3
88	186987	68156	15005	9785	64896	9002	25693	56923	34125	11461	4639	70	3.0
89	186145	68039	15125	10009	62459	8965	25026	56328	33259	13279	4651	71	3.3
90	185745	67865	15242	10111	60223	8659	24898	55158	32025	10093	4660	72	3.5
91	184732	65432	15987	10255	58765	8456	25364	53569	25325	11606	4662	72	3.5
92	182543	65898	16435	10867	55463	8236	23596	51369	24654	7565	4674	72	4.2
93	180135	66576	16543	11815	53426	8101	25689	49869	23523	6459	4675	73	2.4
94	177654	65437	17654	12146	51098	7987	29835	47698	21687	4164	4663	73	4.3
95	176567	64565	17764	12978	43546	7567	32545	41356	17560	6854	4662	74	8.5
96	178234	63434	18095	13089	40987	7324	39062	39902	15155	2947	4662	78	9
97	179435	91437	17034	11034	55674	12987	42472	49021	18145	2578	4657	146	12
98	180345	112506	16985	10976	60564	16453	48512	55433	25229	2532	4652	191	13
99	182342	118764	15432	9876	65483	18675	53201	59343	28769	2017	4654	225	13
2000	183465	128675	14769	8564	70875	21789	57985	60256	29526	1899	4653	225	18
2001	189343	139786	14009	7685	78659	24367	59668	67569	38235	1888	4650	226	25
2002	402345	179876	13034	6754	102564	32345	79404	95463	48958	2462	4655	280	31
2003	409435	198654	14897	7065	90564	29345	65119	80657	42635	4238	4658	281	51
2004	412349	229837	15097	9053	88765	27654	63491	78563	43580	10030	4655	280	62
2005	428906	231259	13879	11087	89765	29674	68660	79654	44920	4398	4653	290	74
2006	498324	236543	12654	8765	94764	32456	72505	85674	49612	7202	4653	291	80
2007	502349	241675	11876	8002	96574	34582	73553	82345	51008	8981	4651	291	85

Company (B) Raw accounting Data

	T/A	Equity	L/T/D	S/T/D	Sales	EBIT	A/R (net)	C.o.g.s	Inv	CPI(deflator)	EMPL	Emp. bonus	Train. cost
85	150569	50235	14895	8996	40125	6859	28456	38965	30125	4859	4356	78	3.5
86	150103	49526	15469	9125	39856	6578	28123	38459	29875	5125	4398	79	4.0
87	149856	49112	16548	9875	39105	6452	27496	37689	28159	7700	4459	79	4.5
88	149136	48856	16985	10006	40156	6329	27812	37115	29786	7092	4498	80	4.2
89	148986	48132	17459	10589	39458	5985	26987	36988	30598	8547	4505	81	4.9
90	148569	47645	17987	10878	38765	5789	26565	36764	28589	2210	4550	82	4.0
91	147658	46765	18056	11345	37654	5889	25321	35564	27523	7437	4553	88	4.0
92	147456	45678	19234	11908	36998	5945	24714	34567	26012	5047	4576	89	4.5
93	146348	44897	20678	12453	34657	5234	23125	33213	25635	4190	4598	111	5.0
94	146378	44786	21453	13567	34565	4897	23214	33212	24785	2817	4598	114	5.0
95	145392	42347	21956	14562	33454	3476	25213	32125	22856	5266	4602	119	5.6
96	147348	37654	22675	15643	33454	3245	26117	30165	22894	2405	4605	124	5.9
97	148563	44356	22675	15076	35465	4876	27524	32524	24514	1642	4554	125	7.1
98	155436	47643	21563	14782	40876	6453	28245	38456	28264	1709	4502	125	8.9
99	158764	50765	21067	14054	43565	7023	29354	39156	29526	1342	4478	124	10.1
2000	159765	52347	20867	13076	44876	7345	30775	40286	30664	1203	4421	126	11.3
2001	163452	55675	20205	13002	48543	8035	31791	41259	31590	1165	4402	126	14.5
2002	200050	58675	19576	12853	53426	9076	32992	42708	34359	1282	4383	129	17.0
2003	205643	60453	22353	13786	54674	9040	37626	50386	38731	2559	4105	129	18.7
2004	207658	63454	23453	14654	52346	8421	39344	50921	37638	5915	3750	129	35.3
2005	204864	64645	24014	13987	48765	7045	36283	47303	38093	2389	3567	136	36.1
2006	203456	66453	22058	13452	50456	8234	36393	49106	37503	3835	3456	136	37.3
2007	209845	69876	21041	12654	54675	9465	36540	49772	39780	5085	3345	136	35.6

Company(C) Raw accounting data

	T/A	Equity	L/T/D	S/T/D	Sales	EBIT	A/R (net)	C.o.g.s	Inv	CPI(Deflator)	EMPL	Emp. bonus	Train. cost
85	180256	80256	25469	13569	71256	13256	28456	56894	39785	8629	5350	79	2
86	178965	78956	24589	12549	70125	13245	28412	55698	38459	9018	5405	79	2
87	176598	76589	23698	11259	68568	12459	27148	54712	37415	13501	5496	80	2
88	174569	74528	22548	10486	66789	12026	27045	53169	36987	11795	5520	81	3
89	172569	74596	20159	10988	64153	11459	26984	51242	35496	13896	5539	82	3
90	170345	75236	19768	11435	60456	10987	25564	50146	35647	3446	5550	85	2
91	172354	77964	20675	12564	62345	11234	26569	52548	36513	12313	5557	87	2
92	173454	84408	21089	12876	65436	11786	27648	55897	37456	8925	5587	88	3
93	175483	86547	21780	13897	65786	10987	28986	59896	40214	7954	5590	89	3
94	178654	87124	22089	14376	62453	9067	29846	55612	47713	5090	5689	92	3
95	179765	88976	22987	15786	64352	8567	30698	56524	48085	10129	5709	113	4
96	173497	80987	22897	16897	62342	7564	32256	50815	48236	4482	5734	136	4
97	175476	88765	19886	16998	61237	7654	32125	51659	50063	2835	5734	136	6
98	176348	95436	19645	16943	62378	7876	33374	51051	51486	2607	5698	136	7
99	177235	103452	18005	15647	63298	7996	34629	51445	52500	1950	5603	136	7
2000	177398	107653	17564	15078	65478	8534	35674	53410	54877	1755	5597	137	8
2001	178309	109367	16574	14387	70654	8996	37967	54109	58285	1696	5546	137	9
2002	179764	112897	16986	14874	75436	9265	38675	66806	63322	1810	5458	137	9
2003	180764	115654	19876	17548	73256	7658	42365	68421	62362	3428	5209	138	10
2004	181065	120987	20765	18765	70564	6543	41565	67832	59442	7974	5123	138	11
2005	181543	123676	19874	18045	69876	5543	40672	66354	58270	3424	4993	138	15
2006	192865	125673	19503	17635	71534	5897	42578	68898	59854	5437	4990	138	17
2007	193574	126574	18765	17056	73865	6045	43578	71731	61612	6869	4988	138	21

Company (A) Financial ratio analysis

	ROA	ROE	ROS	sales.eff	Income.eff	output	Debt ratio	Debt/equity	Days Of Rec	Days Of Inv
85	0.052	0.141	0.138	15.426	2.129	62310	0.124	0.210	143	228
86	0.050	0.137	0.138	14.849	2.050	52122	0.128	0.217	143	227
87	0.049	0.134	0.139	14.330	1.991	53193	0.131	0.218	141	224
88	0.048	0.132	0.139	13.989	1.941	53435	0.133	0.220	145	216
89	0.048	0.132	0.144	13.429	1.928	49180	0.135	0.222	146	213
90	0.047	0.128	0.144	12.923	1.858	50130	0.136	0.225	151	209
91	0.046	0.129	0.144	12.605	1.814	47159	0.142	0.244	158	170
92	0.045	0.125	0.148	11.866	1.762	47898	0.150	0.249	155	173
93	0.045	0.122	0.152	11.428	1.733	46967	0.157	0.248	176	170
94	0.045	0.122	0.156	10.958	1.713	46934	0.168	0.270	213	164
95	0.043	0.117	0.174	9.341	1.623	36692	0.174	0.275	273	153
96	0.041	0.115	0.179	8.792	1.571	38040	0.175	0.285	348	137
97	0.072	0.142	0.233	11.955	2.789	53096	0.156	0.186	278	133
98	0.091	0.146	0.272	13.019	3.537	58032	0.155	0.151	292	164
99	0.102	0.157	0.285	14.070	4.013	63466	0.139	0.130	297	175
2000	0.119	0.169	0.307	15.232	4.683	68976	0.127	0.115	299	176
2001	0.129	0.174	0.310	16.916	5.240	76771	0.115	0.100	277	204
2002	0.080	0.180	0.315	22.033	6.948	100102	0.049	0.072	283	185
2003	0.072	0.148	0.324	19.443	6.300	86326	0.054	0.075	262	190
2004	0.067	0.120	0.312	19.069	5.941	78735	0.059	0.066	261	200
2005	0.069	0.128	0.331	19.292	6.377	85367	0.058	0.060	279	203
2006	0.065	0.137	0.342	20.366	6.975	87562	0.043	0.053	279	208
2007	0.069	0.143	0.358	20.764	7.435	87593	0.040	0.049	278	223

Company (B) Financial ratio analysis

	ROA	ROE	ROS	sales.eff	Income.eff	output	Debt ratio	Debt/equity	Days Of Rec	Days Of Inv
85	0.046	0.137	0.171	9.211	1.575	35266	0.159	0.297	259	278
86	0.044	0.133	0.165	9.062	1.496	34731	0.164	0.312	258	280
87	0.043	0.131	0.165	8.770	1.447	31405	0.176	0.337	257	269
88	0.042	0.130	0.158	8.928	1.407	33064	0.181	0.348	253	289
89	0.040	0.124	0.152	8.759	1.329	30911	0.188	0.363	250	298
90	0.039	0.122	0.149	8.520	1.272	36555	0.194	0.378	250	280
91	0.040	0.126	0.156	8.270	1.293	30217	0.199	0.386	245	279
92	0.040	0.130	0.161	8.085	1.299	31951	0.211	0.421	244	271
93	0.036	0.117	0.151	7.537	1.138	30467	0.226	0.461	244	278
94	0.033	0.109	0.142	7.517	1.065	31748	0.239	0.479	245	269
95	0.024	0.082	0.104	7.269	0.755	28188	0.251	0.518	275	256
96	0.022	0.086	0.097	7.265	0.705	31049	0.260	0.602	285	273
97	0.033	0.110	0.137	7.788	1.071	33823	0.254	0.511	283	271
98	0.042	0.135	0.158	9.080	1.433	39167	0.234	0.453	252	265
99	0.044	0.138	0.161	9.729	1.568	42223	0.221	0.415	246	271
2000	0.046	0.140	0.164	10.151	1.661	43673	0.212	0.399	250	274
2001	0.049	0.144	0.166	11.027	1.825	47378	0.203	0.363	239	276
2002	0.045	0.155	0.170	12.189	2.071	52144	0.162	0.334	225	290
2003	0.044	0.150	0.165	13.319	2.202	52115	0.176	0.370	251	277
2004	0.041	0.133	0.161	13.959	2.246	46431	0.184	0.370	274	266
2005	0.034	0.109	0.144	13.671	1.975	46376	0.185	0.371	272	290
2006	0.040	0.124	0.163	14.600	2.383	46621	0.175	0.332	263	275
2007	0.045	0.135	0.173	16.345	2.830	49590	0.161	0.301	244	288

Company (C) Financial ratio analysis

	ROA	ROE	ROS	sales.eff	Income.eff	output	Debt ratio	Debt/equity	Days Of Rec	Days Of Inv
85	0.074	0.165	0.186	13.319	2.478	62627	0.217	0.317	146	255
86	0.074	0.168	0.189	12.974	2.451	61107	0.208	0.311	148	252
87	0.071	0.163	0.182	12.476	2.267	55067	0.198	0.309	145	250
88	0.069	0.161	0.180	12.099	2.179	54994	0.189	0.303	148	254
89	0.066	0.154	0.179	11.582	2.069	50257	0.180	0.270	154	253
90	0.064	0.146	0.182	10.893	1.980	57010	0.183	0.263	154	259
91	0.065	0.144	0.180	11.219	2.022	50032	0.193	0.265	156	254
92	0.068	0.140	0.180	11.712	2.110	56511	0.196	0.250	154	245
93	0.063	0.127	0.167	11.769	1.965	57832	0.203	0.252	161	245
94	0.051	0.104	0.145	10.978	1.594	57363	0.204	0.254	174	313
95	0.048	0.096	0.133	11.272	1.501	54223	0.216	0.258	174	311
96	0.044	0.093	0.121	10.872	1.319	57860	0.229	0.283	189	346
97	0.044	0.086	0.125	10.680	1.335	58402	0.210	0.224	191	354
98	0.045	0.083	0.126	10.947	1.382	59771	0.207	0.206	195	368
99	0.045	0.077	0.126	11.297	1.427	61348	0.190	0.174	200	372
2000	0.048	0.079	0.130	11.699	1.525	63723	0.184	0.163	199	375
2001	0.050	0.082	0.127	12.740	1.622	68958	0.174	0.152	196	393
2002	0.052	0.082	0.123	13.821	1.698	73626	0.177	0.150	187	346
2003	0.042	0.066	0.105	14.063	1.470	69828	0.207	0.172	211	333
2004	0.036	0.054	0.093	13.774	1.277	62590	0.218	0.172	215	320
2005	0.031	0.045	0.079	13.995	1.110	66452	0.209	0.161	212	321
2006	0.031	0.047	0.082	14.335	1.182	66097	0.193	0.155	217	317
2007	0.031	0.048	0.082	14.809	1.212	66996	0.185	0.148	215	314

Appendix D

Macroeconomic data

GDP-Inflation

Year	GDP growth %	Inflation rate	Year	GDP growth %	Inflation rate
1960	4.5	0.65	1984	6.09	17.04
1961	4.4	0.69	1985	6.6	12.11
1962	6.85	-3	1986	2.64	23.86
1963	9	0.75	1987	2.51	19.69
1964	8.14	3.66	1988	5.3	17.66
1965	9.22	14.84	1989	4.97	21.26
1966	1.05	9.04	1990	5.7	16.76
1967	0.62	0.7	1991	1.07	19.75
1968	2.72	-1.67	1992	4.43	13.64
1969	6.81	3.41	1993	2.88	12.09
1970	5.6	3.76	1994	3.94	8.15
1971	3.44	3.14	1995	4.66	15.74
1972	2.02	2.1	1996	5.1	7.19
1973	0.7	5.11	1997	5.49	4.63
1974	2.48	10.02	1998	5.57	4.18
1975	8.93	9.67	1999	6.02	3.08
1976	12.3	10.32	2000	5.12	2.68
1977	12.83	12.73	2001	3.3	2.4
1978	5.77	11.08	2002	3.1	2.4
1979	6.03	9.9	2003	3.5	4.68
1980	10.01	20.66	2004	3.89	11.3
1981	3.75	10.32	2005	4.4	4.9
1982	9.9	14.82	2006	6.8	7.6
1983	7.4	16.08	2007	7.1	9.3

Total subsidies as % of GDP and total expenditures as % of GDP

	Total Subsidies as % of GDP	Total Expenditures as % of GDP
1991	3.33	51.08
1992	3.78	43.08
1993	2.46	33.24
1994	1.97	32.5
1995	1.86	29.07
1996	1.81	28.4
1997	1.71	26.36
1998	1.58	25.44
1999	1.49	24.66
2000	3.1	26.78
2001	3.51	29.62
2002	4.82	30.53
2003	4.91	30.47
2004	6.11	30.19
2005	7.72	30.05
2006	7.41	33.62
2007	7.65	30.41